

# MONEY

HS202

# BARTER SYSTEM

- DIFFICULTIES OF BARTER-
- LACK OF DOUBLE COINCIDENCE OF WANTS
- LACK OF COMMON MEASURE OF VALUE
- NO MEANS OF SUBDIVISION OF VALUE
- LACK OF STORE OF VALUE
- SMALL SIZE OF MARKET
- NO MULTILATERAL TRADE
- NO CREDIT TRANSACTION
- LOW ECONOMIC DEVELOPMENT

# DEFINITION AND FUNCTIONS OF MONEY

- SHAPIRO DEFINES MONEY AS ANYTHING WHICH IS BOTH A MEDIUM OF EXCHANGE AND A UNIT OF ACCOUNT GENERALLY ACCEPTED
- **PRIMARY FUNCTIONS-**
- MEDIUM OF EXCHANGE
- COMMON MEASURE OF VALUE
- **SECONDARY FUNCTIONS-** STANDARD OF DEFERRED PAYMENTS
- STORE OF VALUE



# KINDS OF MONEY

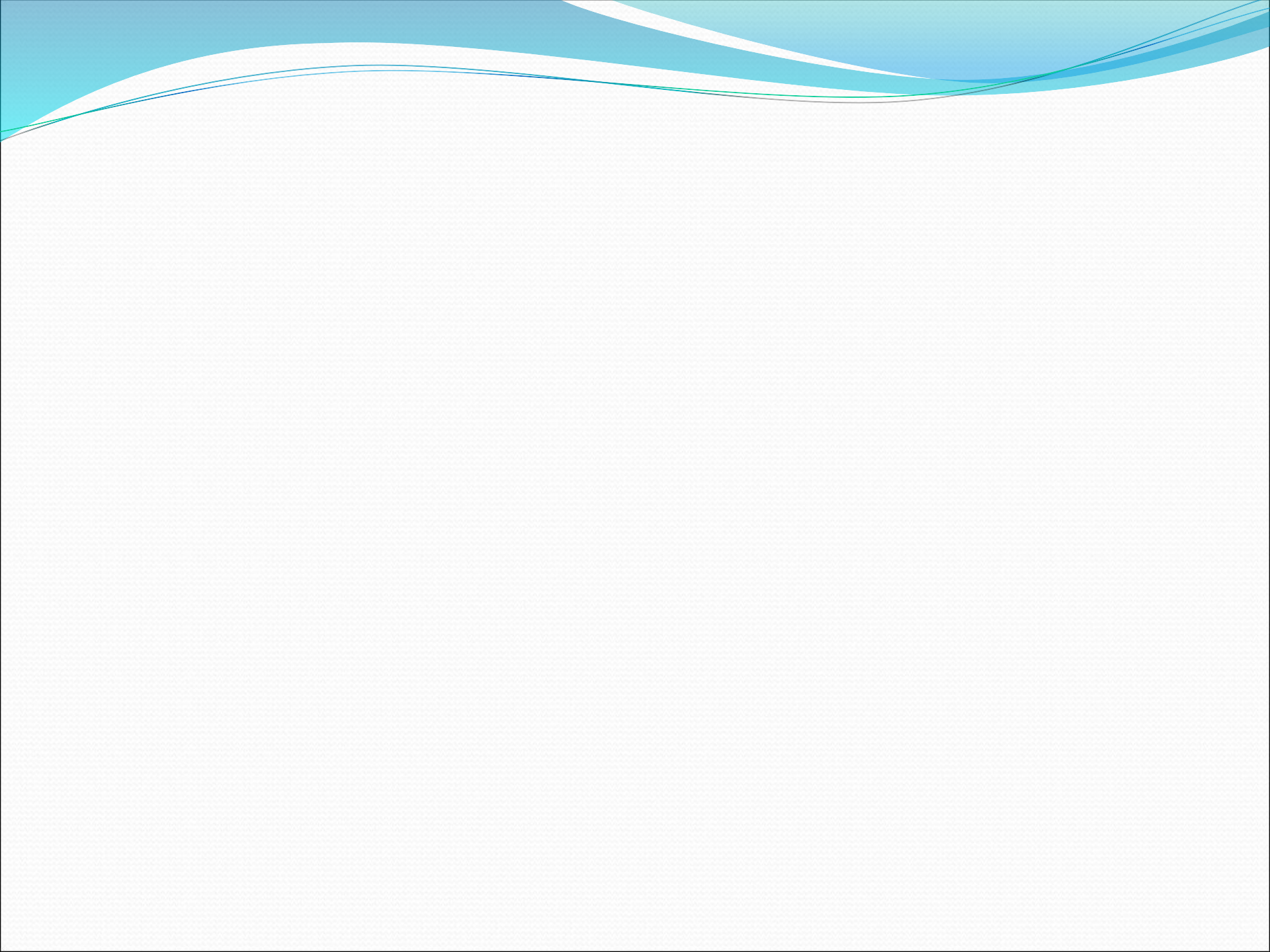
- LEGAL TENDER-MONEY ISSUED BY GOVERNMENT- METALLIC MONEY
- PAPER MONEY
- CREDIT MONEY- CHEQUES, DRAFTS, IOUs ("I owe you")
- MONEY OF ACCOUNT –DIFFERENT FORMS OF CURRENCY
- NEAR MONEY- FINANCIAL ASSETS, IMMOVABLE PROPERTY.

# Narrow and Broad Money

## M1 to M4

- **M0 and M1** is generally coins and notes in circulation and other money correspondents that are easily adaptable into cash so called narrow money.
- **M2** includes **M1** + short-term time deposits in banks and 24-hour money market funds.
- **M3** includes **M2** + longer-term time deposits and money market funds with more than 24-hour maturity. The exact definitions of the three measures depend on the country.
- **M4** includes **M3** + other deposits.
- Generally the term broad money is practiced to define **M2**, **M3** or **M4**, depending on the local practice in a country.





# CENTRAL BANK and Money

- SAMUELSON DEFINES – “TO CONTROL ECONOMY’S SUPPLY OF MONEY AND CREDIT”.
- VERA SMITH- “COMPLETE MONOPOLY OF NOTE ISSUE”.
- HAWTREY- “LENDER OF LAST RESORT”.



# **FUNCTIONS OF CENTRAL BANK**

- **BANK OF NOTE-ISSUE**
- **BANKER, AGENT AND ADVISOR TO GOVERNMENT**
- **CUSTODIAN OF CASH RESERVES OF COMMERCIAL BANKS**
- **CUSTODIAN OF FOREIGN EXCHANGE**
- **LENDER OF LAST RESORT TO COMMERCIAL BANKS**
- **CONTROLLER OF CREDIT**
- **FORMULATE MONETARY POLICY**



# METHODS OF CREDIT CONTROL

- **GENERAL OR QUANTITATIVE:**
- **BANK RATE-** RATE CHARGED BY CENTRAL BANK TO COMMERCIAL BANKS ON LOANS
- **OPEN MARKET OPERATIONS-** SALE OR PURCHASE OF SECURITIES OR TRADE BILLS.
- **VARIABLE RESERVE RATIO-** MINIMUM CASH RESERVE MAINTAINED BY COMMERCIAL BANKS, SLR-STATUTORY LIQUIDITY RATIO

# QUALITATIVE OR SELECTIVE CREDIT CONTROL

- **MARGIN REQUIREMENT ON SECURED LOANS**  
AGAINST GOLD OR SECURITIES-COMMERCIAL BANKS HAVE TO PROVIDE MARGIN
- **REGULATION OF CONSUMER CREDIT-** EMIs  
INSTALMENT BASIS-INCREASE LIMIT OF DOWN PAYMENTS FROM CONSUMERS
- **RATIONING OF CREDIT**



# SELECTIVE CREDIT CONTROL CONT.

- **DIRECT ACTION**-REFUSE REDISCOUNT OF BILLS, FURTHER LOANS ETC.
- **MORAL SUASION**
- **PUBLICITY THROUGH PUBLICATIONS**  
,PERIODICAL REVIEWS, BALANCE SHEET MADE PUBLIC ETC.



# MONETARY POLICY.

- **DEFINITION-** KENT “ MANAGEMENT OF EXPANSION AND CONTRACTION OF VOLUME OF MONEY FOR ATTAING SPECIFIC OBJECTIVE” –CONTROLLED EXPANSION
- **OBJECTIVES: IN A DEVELOPING ECONOMY**
- EXCHANGE STABILITY
- PRICE STABILITY
- NEUTRALITY OF MONEY
- FULL-EMPLOYMENT
- ECONOMIC GROWTH
- BALANCE OF PAYMENTS EQUILIBRIUM

# LIMITATIONS OF MONETARY POLICY

- NON-MONETISED SECTOR
- UNORGANISED MARKET
- INDEGENOUS MONEY LENDERS
- BANK DEPOSITS SMALL PROPORTION OF INCOME- TRANSACTION MORE IMPORTANT WITH LIMITED INCOME
- LACK OF BANKING HABITS
- BLACKMONEY-PARALLEL ECONOMY
- DEFICIT FINANCING COUNTER CONTROLS