



# **MONEY & BANKING**

**MIT/TECHNOLOGIES FOR FINANCE/L1-2/JAN'24**

# 3 KEY FUNCTIONS OF MONEY

1. Commonly accepted medium of exchange
  - Barter system suffers from double co-incidence of wants
  - Search time and costs are high in barter system
2. Unit of account
3. Store of value
  - Some barter items are perishable, hence cant store or protect value

# DEMAND & SUPPLY OF MONEY

## 1. Examples of Demand factors

- Interest rates (when interest rate is high, people keep more deposits with banks, hence demand for currency money comes down)
- Income levels (as Income level rises, transactions & their values grow, hence demand is more)

## 2. Examples of Supply factors

- When central banks reduces CRR, banks can lend more, and hence supply increases
- Other policy measure?

# MONEY MULTIPLIER IN THE BANKING SYSTEM

- SLR (Statutory Liquidity Ratio) : Definition? Current levels?
- CRR (Cash Reserve Ratio) : Definition? Current levels?
- Money multiplier =  $1 / \text{CRR}$  (i.e if CRR = 10%,  $\text{MM} = 1/0.1 = 10$ )
- Lending outcomes because of money multiplier effect
- Excel example: If a bank gets Rs 1 Lakh as deposit, how much can it lend? How many loans can it dole out?
- Case study: Payments >> Deposit Bank >> Lending License : How profitability is impacted if payment fintechs are limited to only payments or deposits.

# TYPES OF MONEY

- Commodity Money (roots in Barter system days, but could be still existing in some form)
- Metallic Money (gold, silver, bronze, copper coins)
- Fiat Money (currencies issued by various countries)
- Fiduciary Money (Bill of exchanges, cheques)
- Plastic Money (Cards)
- Electronic Money (Numbers sitting in accounts)
- Digital Money (CBDC)
- Cryptocurrency (no central authority)

# FUNCTIONS OF THE CENTRAL BANK (RBI)

1. Banker of the Banks
2. Banker of the Govt
3. Custodian of Monetary Policy
4. Printing Currency Notes (who prints coins?)
5. Regulator of Foreign Exchange
6. Other functions??



# THANK YOU

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