Date ___/___/___

Music download.

1. Prayer song. (Invocation)
2. Welcome address by our Dean.
3. Introduction of the chief guest (Profile)
4. Vote of thanks.

① Money demand – Total amt. of money demanded in an economy (by all individuals, households)

② Money supply – Amt. of money held by households & businesses for transactions & debt settlement

We exclude money held by govt &
" " " Commercial banks

Demand for money ⇒ cash (or) bank D.

Nominal demand for money ↑ses with level of nominal o/p.
& ↓ses with the nominal interest rate.

Demand for money ⇒ influenced by
- income level,
- interest rates
- inflation
- future uncertainty

Impact of these factors on money demand is based on three motives

i) Transaction motive – demand for money to meet current needs.

ii) precautionary " – people's desire to save money for contingencies

iii) Speculative – motivation to hold cash in order to profit from market movements

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Monetary policy ⇒ help to stabilize when the demand for money is stable.

⇒ when demand for money is not stable, real & nominal interest rates change & economic fluctuations occur.

Money is required to manage transactions.

⇒ value of transactions determines how much money people wish to keep.

1. greater no. of transactions ↑ Amt. of money demanded

2. Qty of transactions is determined by earning. ↑se in earnings ↑ in demand for money

3. when people save money rather than putting it in a bank (Money they save is also subject to the rate of interest).

At high interest rates – Amt. of money demanded decreases.

## Money Supply

Total stock of money in circulation among the general public

Most liquid $M_1$ = CU + DD → net demand deposits → only public deposits held by banks

CU → public currency (notes & coins).

No interbank deposits.

$M_2$ = $M_1$ + Saving deposits with post office savings banks.

narrow money

$M_3$ = $M_1$ + Net time deposits of commercial banks → also referred to aggregate monetary resources

Broad money.

$M_4$ = $M_3$ + Total deposits with post office savings organizations (excluding National Savings certificates)

~~most~~ least liquid.

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Monetary policy raises total supply of money.

Expansionary policy → raises total supply of money

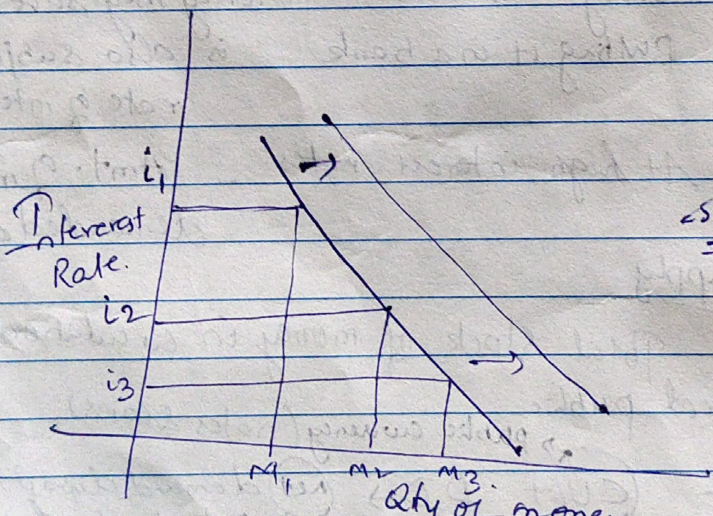
useful to reduce unemployment

Contractionary " → raises total supply of more more slowly than u...

to slow inflation.

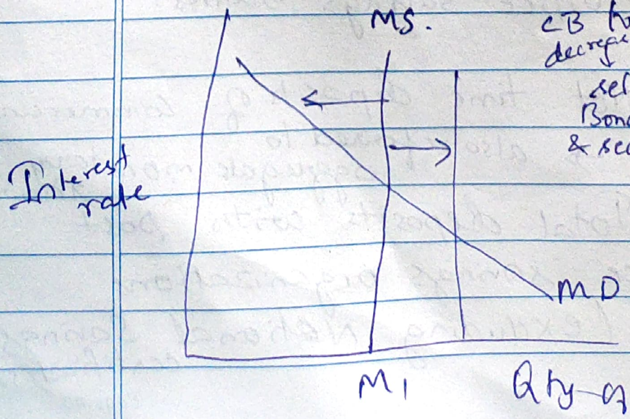
Mr. X — Monthly income

Demand for money
→ ( Bank a/c)
→ Keep cash.
→ Traveler's check




shifts in money demand.
1. Price level
2. Incomes
3. Technology.
→ used credit cards.

Money supply




CB to decrease money supply.
sell/buy Bonds & securities

1. Open market Operations.
2. Reserve Requirement.
3. Discount Rate.

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⇒ To decrease money supply central Bank will sell Bonds & Securities
⇒ To increase money supply, CB will buy bonds & securities.

Reserve Requirements

Banks should keep some % as reserve in their banks

If banks are asked to keep more % as reserve → shift leftward in money supply. (less money supply).

The other thing is opposite to this.

⇒ Discount rate:
CB take loans from

1/6/22 CSBS 4th Hr.

(~~18~~, 30, 38, 47)

Money multiplier.

What is money multiplier?

Credit creation by commercial banks.

Money supply in the economy consists of
- currency &
- Bank deposits.

Commercial banks are capable of creating more credit than deposits which they receive from the customers.

- This credit creation of the commercial banks multiply money in circulation in the form of bank deposits

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If the banks receive Rs.1000 as deposit
It will ↑ the ~~the~~ money suppy ~~be~~ Rs.5000

- Banks manage to lend more than Rs.1000.
whenever a bank lends it creates a new deposit
It is money.

Bank x customer A deposits Rs.1000 in this banks.

| Liability | | Asset | |
|---|---|---|---|
| Deposit | Rs.1000 | cash (Bank earns interest income by lending the money) | Rs.1000 |
| Total | 1000 | | 1000 |
| Money in circulation | | Reserve Rs.200 | |

Bank keeps 20% of the deposit

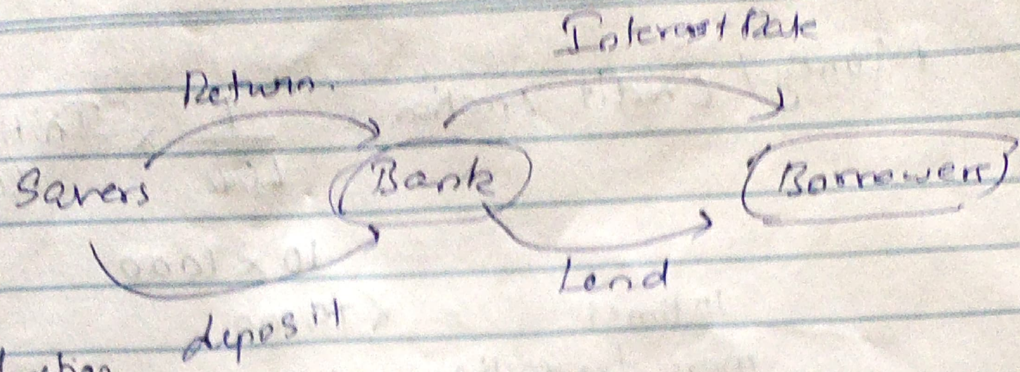
Balance Rs.800.

| Liability | | Asset | |
|---|---|---|---|
| Deposit | Rs.1000 | cash | Rs.200 |
| | | Loan to Mr.B | Rs.800 |
| Total | 1000 | | Rs.1000 |
| Deposit | Rs.800 | Cash | 800 |

Money in circulation
1000 + 800 = Rs.1800.

$$K = \frac{1}{\text{Legal Reserve Ratio}} = \frac{1}{20/100} = \frac{1}{0.2} = 5.$$

$\Delta M = 1000 \times 5 = \underline{\underline{5000}}$ Change in money suppy due to change in money deposit.




Most function of commercial banks.
- "Intangible money in the economy"
- create credit far more than the money available in the economy

Assumptions
- Entire commercial banking system is one unit.
- They are interconnected with each other.
- Receipts & payments in the economy are done through banks.
  (No transactions are done in cash)

Deposits held by the commercial banks are used for giving loans = ₹ 10,000
↓
Households, Business sector.

(Legal Reserve Ratio) LRR = 10 %.
↓ % with themselves or with RBI in the form of reserves.
CRR+SLR.

- Depositors can come at various times to withdraw the money.

| Deposits | Loans | LRR |
|---|---|---|
| 1000 | 900 | 100 |
| Hypothetically created 900 | 810 (900-90) | 90 |
| 810 | 729 (810-81) | 81 |
| – | | |
| – | | |
| 10,000 | 9,000 | 1,000 |

Money multiplier $= \frac{1}{LRR} = \frac{1}{10\%} \left(\frac{100}{10}\right) = 10$ times

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Money / credit creation $= \frac{1}{LRR} \times$ Initial deposits

$= 10 \times 1000$

10 times $= ₹ 10,000$

more transaction
money in the economy.

2/6/22 CSBS.
24, 30, 34, 38, 43, 47,

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$C = 200 + 2q^2$
$MC = 4q$ $\quad FC = \$200$.

a. If price of watch is \$100, how many watches.

$100 = 4q$

$\boxed{q = 25}$

b.

$\pi = P * q - (200 + 2q^2)$.

$\pi = (100)(25) - (200 + 2(25^2))$

$= \$1050$ //

c) Min price the firm will produce a +ve o/p.

If revenues are greater than its total variable costs.

MC curve above minimum AVC.

$AVC = \frac{VC}{q} = \frac{2q^2}{q} = 2q$.

$MC = 4q$. $MC > AVC$ for any quantity greater than 0.

The firm produces in the short run as long as price is positive

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