UNIT-II

INTRODUCTION TO MARKETS AND MONEY

Markets

Introduction:

Ordinarily, the term market refers to a place, where goods are purchased and sold. Market constitute an important phase in the economic activity all the goods and services that are produced need be sold to the consumer for a price, the market facilitate this process.

The market should not be restricted to a specific place. Certain commodities have national and even international market. The term market should not ignore the demand and supply of the commodities.

In this way, market may be defined as an arrangement of establishing effective relationship between buyers and sellers of commodities. It shows that market is not restricted to a place. It may be local, national and even international such as Foreign Exchange Market.

Market is defined as a place or a point where buyers and sellers negotiate their exchange of well defined products or services.

Definition:

In the words of **Prof Chapman,** “the term market refers not necessarily to a place but always to commodity and the buyers and sellers who are in direct competition with one another.”

According to **Curnot,** “the term market not any particular market place in which things are bought and sold, but whole of any region in which buyers and sellers are in such free intercourse with one another that the price of the same goods tends to equality easily and quickly.”

In this way, the term market includes the entire area, where buyers and sellers contact each other to purchase and sell commodities at certain price.

Size of Market:

The size of market depends on many factors such as

- Nature of Products

- Nature of their Demand
- Taste and Preferences of the Consumer or Customer
- Income levels of the Consumer or Customer
- State of Technology
- Extent of infrastructure including telecommunications
- Information technology
- Time factor like Short-run and Long-run

Features of Market:

Every market must have the following features:

1. **Commodity:** It is the soul of the market. Every market must have commodity to be purchased and sold. There cannot be a market without commodity.

2. **Buyers and Sellers:** The presence of buyers and sellers directly or indirectly in the market is essential for conducting business transactions. In the absence of buyers and sellers or both no sale and purchase activities can take place.

3. **Area:** There must be an area where buyers and sellers of the commodity must reside. It is not necessary that buyers and sellers should visit a particular place to transact business personally. Markets may be local, national and even international.

4. **Close contact between buyers and sellers:** There must be close contact between buyers and sellers, so that actual transaction of the purchase and sale of the commodity could take place.

Structure of market:

Market structure can influence the behavior and performance of firms on the markets. The following factors affect the structure of market.

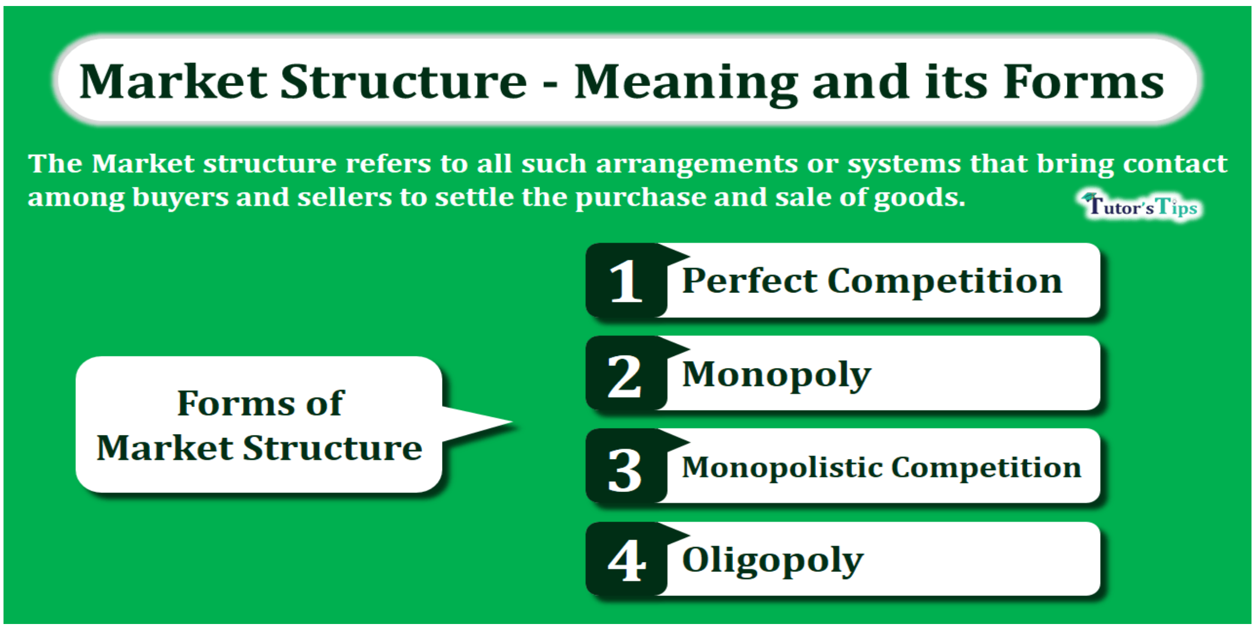
1. **Number of Sellers:** This refers to the number of sellers and their share for given product or service in the market.

2. **Number of Buyers:** This refers to the number of buyers and their extent of change of given product or service in the market.

3. **Product Differentiation:** This refers to the extent by which the product of each trader is differentiated from one of the other, such as size, color, content, variety, and brand etc.

4. **Condition of entry into the market:** More often there would be certain restrictions enter into or to exit from the market. The degree of with which one can enter into the market or exit from the market can also determine the market structure.

<u>Different market structure</u>
<u>Or</u>
<u>Types of market structure</u>



1. **<u>Perfect Competition Market:</u>**

Perfect competition refers to a market structure where competition among the sellers and buyers prevails in most perfect form. Perfect competition occurs when all companies sell identical products, market share does not influence price, companies are able to enter or exit without barriers, buyers have perfect or full information, and companies cannot determine prices.

<u>Features:</u>

1. Large number of buyers and sellers
2. Homogeneous product
3. Freedom of entry and exit
4. Perfect knowledge
5. Perfect mobility
6. Absence of selling and transport cost

7. Uniform price

2. **<u>Monopoly Competition Market:</u>**

The word ‘monopoly’ has been derived from the two Greek words ‘Monos’ and ‘Polus’. ‘Monos’ means single and ‘Polus’ means seller, so the word ‘monopoly’ means single seller. It is a form of market in which there is only one seller for the commodity. Monopoly is that market situation in which a firm has the sole right over production and sale of the product and it has no competitor in the market and no close substitute for its product.

<u>Features:</u>

1. Single producer or seller
2. Large number of buyers
3. No close substitute of the commodity
4. No firm can enter the market
5. Price discrimination is possible
6. Price make

3. **<u>Monopolistic Competition Market:</u>**

Monopolistic competition is a mixture of monopoly and perfect competition. In this market situation both elements of monopoly and perfect competition are present. Under it, firms produce differentiated product, which are close substitutes but not substitute. As such monopolistic competition is a market situation, in which both the monopolistic elements and perfect competition elements are present.

<u>Features:</u>

1. Existence of many firms or sellers
2. Large number of buyers
3. Freedom of entry or exit
4. Product differentiation
5. Elements of both monopoly and perfect competition
6. High cross elasticity of demand
7. Independent price policy

4. **<u>Oligopoly Competition Market:</u>**

Oligopoly is the market situation in which there are only a few sellers for more than two of the commodities. Every seller has a perceptible effect on other sellers and he influences the market.

That is why; it has also been called as competition among the few. It is the form of imperfect competition.

Features:

1. There are few sellers
2. Every seller has a perceptible impact on other sellers
3. Both homogeneous product and product-differentiation are possible
4. It is not easy to enter the industry
5. Interdependence
6. Important role of non-price competition or advertising and selling costs

Differences among the Market Structure:

Basis	Perfect competition market	Imperfect competition market		
		Monopoly	Monopolistic	Oligopoly
1. Number of firms	Many	One	Many	Few
2. Freedom of entry	Easy	Very difficult	Easy	Difficult
3. Nature of the product	Un-differentiation	Unique	Differentiation	Un-differentiation or Differentiation
4. Average size of firm	Many small firms	Large size	Many small firms	Few large firms
5. Profit making possibility	Normal profits	Economic profits	Normal profits	Normal profits
6. Possible consumer demand	Perfectly elastics	Very inelastic	Elastic	Inelastic
7. Government intervention	Price control & selling	Taxation, price setting & nationalization	May block new entries	Unregulated
8. Sellers control over price	None	Substantial	Low	Moderate to substantial

National Income

Introduction:

National income means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money. National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national expenditure.
The National Income is the total amount of income accruing to a country from economic activities in a year's time. It includes payments made to all resources either in the form of wages, interest, rent, and profits.
The progress of a country can be determined by the growth of the national income of the country.

Definition:

According to Marshall: "The labor and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend."

GDP:

Gross Domestic Product
The total value of goods produced and services rendered within a country during a year is its Gross Domestic Product.
Gross domestic product (GDP) is the value of the finished domestic goods and services produced within a nation's borders. On the other hand, gross national product (GNP) is the value of all finished goods and services owned by a country's citizens, whether or not those goods are produced in that country
Gross domestic product is the most basic indicator to measure the overall health and size of a country's economy. This metric counts the overall market value of the goods and services produced domestically by a country. GDP is an important figure because it gives an idea of whether the economy is growing or contracting.
Calculating GDP includes adding together private consumption or consumer spending, government spending, capital spending by businesses, and net exports minus imports. Here's a brief overview of each component:

- **Consumption**: The value of the consumption of goods and services acquired and consumed by the country's households. This accounts for the largest part of GDP.
- **Government Spending**: All consumption, investment, and payments made by the government for current use.

- **Capital Spending by Businesses**: Spending on purchases of fixed assets and unsold stock by private businesses.
- **Net Exports**: Represents the country's balance of trade (BOT), or the difference between exports and imports. A positive number indicates that the country exports more than it imports.

GDP is calculated at market price and is defined as GDP at market prices. Different constituents of GDP are:

- Wages and salaries
- Rent
- Interest
- Undistributed profits
- Mixed-income
- Direct taxes
- Dividend
- Depreciation

GDP Formula

The formula for calculating GDP with the expenditure approach is the following:

GDP = private consumption + gross private investment + government investment + government spending + (exports – imports).

Or,

Expressed in a formula:

GDP = C + I + G + (X – M)

GNP:

Gross National Product

Total market value of the final goods and services produced by a nation's economy during a specific period of time (usually a year), computed before allowance is made for the depreciation or consumption of capital used in the process of production. It is distinguished from net national product, which is computed after such an allowance is made.

The GNP is nearly identical to gross domestic product (GDP) except that the latter does not include the income accruing to a nation's residents from investments abroad (minus the income earned in the domestic economy accruing to no nationals from abroad). Gross national product is a convenient indicator of the level of a nation's economic activity. In 1991 the United States substituted GDP for GNP as its main measure of economic output.

Gross National Product (GNP) is the total value of all finished goods and services produced by a country's citizens in a given financial year, irrespective of their location. GNP also measures the output generated by a country's businesses located domestically or abroad. It can be defined as a piece of economic statistic that comprises Gross Domestic Product (GDP), and income earned by the residents from investments made overseas.

For calculation of GNP, we need to collect and assess the data from all productive activities, such as agricultural produce, wood, minerals, commodities, the contributions to production by transport, communications, insurance companies, professions such (as lawyers, doctors, teachers, etc.) at market prices.

It also includes net income arising in a country from abroad. Four main constituents of GNP are:

1. Consumer goods and services
2. Gross private domestic income
3. Goods produced or services rendered
4. Income arising from abroad.

The formula for GNP = GDP + Net factor income from abroad

Or

GNP = C + I + G + X + Z

Where C is Consumption, is investment, G is government, X is net exports, and Z is net income earned by domestic residents from overseas investments minus net income earned by foreign residents from domestic investments.

NNP:

Net National Product

Net national product (NNP) is the monetary value of finished goods and services produced by a country's citizens, overseas and domestically, in a given period.

It is the equivalent of gross national product (GNP), the total value of a nation's annual output, minus the amount of GNP required to purchase new goods to maintain existing stock, otherwise known as depreciation.

- Net national product (NNP) is gross national product (GNP), the total value of finished goods and services produced by a country's citizens overseas and domestically, minus depreciation.
- NNP is often examined on an annual basis as a way to measure a nation's success in continuing minimum production standards.

- Gross Domestic Product (GDP) is the most popular method to measure national income and economic prosperity, although NNP is prominently used in environmental economics.

Calculating Net National Product (NNP)

The formula for NNP is:

NNP=MVFG+MVFS−Depreciation

Where

MVFG=market value of finished goods

MVFS=market value of finished services

Alternatively, NNP can be calculated as:

NNP=Gross National Product−Depreciation

NDP

Net Domestic Product (NDP) measures the total value of all goods and services produced in a country, adjusted for the depreciation of physical capital. It is calculated by subtracting the capital depreciation from the Gross Domestic Product (GDP), which is the sum of all goods and services produced in a country. It is used to measure the total economic output of a country, taking into account depreciation and capital consumption.

NDP is a measure of a country’s economic performance that considers the depreciation of physical capital, unlike GDP, which only reflects the sum of all goods and services produced within a country’s borders. In other words, it accounts for the reduction in the value of the country’s assets due to aging, wear and tear, or obsolescence.
The NDP better assesses a country’s economic output by subtracting this value from GDP. As a result, it provides a more accurate picture of the available resources for consumption or investment.

NDP is a more accurate measure of a country’s economic output, as it considers the wear and tear of physical capital, which is a key factor in long-term economic growth. In addition, NDP helps understand the number of resources available for consumption or investment. This information is crucial for policymakers and investors.

- ❖ NDP is a useful tool for long-term economic analysis, as it considers the decline in the value of physical capital over time, which is an important factor for sustained economic growth. Thus, it provides a clearer picture of a country’s economic performance.
- ❖ While GDP measures the total value of all goods and services produced within a country’s borders, NDP provides a more accurate picture of a country’s economic output available for consumption or investment.

- ❖ NDP does not consider the effects of indirect taxes and subsidies, which can distort market prices.

NDP Formula

The formula for Net Domestic Product (NDP) is as follows:

NDP = GDP – Depreciation

Where

GDP is the Gross Domestic Product, the total value of all goods and services produced in a country.

Depreciation is the reduction in the value of physical capital due to aging, wear and tear, or obsolescence.

In other words, the NDP is calculated by subtracting the depreciation of physical capital from the GDP to give a more accurate picture of a country's economic output that is available for consumption or investment.

Personal Income:

Introduction

In economics, personal income refers to an individual's total earnings from wages, investment enterprises, and other ventures. It is the sum of all the incomes received by all the individuals or household during a given period. Personal income is that income which is received by the individuals or households in a country during the year from all sources. In general, it refers to all products and money that you receive.

Personal income is either the earned income or transferred income which received by households within the county or outside. Also personal income is the total capital that an individual receives from various sources in the course of life for a certain period of time. Personal income can include not only wages, but also a number of additional incomes (for example, dividends on securities, transfers, pensions, social benefits, rent, and so on). Personal income is calculated before deducting personal taxes charged to the subject. Personal income is an indicator that shows the real well-being of people and their ability to pay (before taxes)

The term "personal income" is sometimes used to refer to the total compensation received by an individual, but this is more aptly referred to as individual income. In most jurisdictions, personal income, also called gross income.

Definition

Personal income refers to all income collectively received by all individuals or households in a country. Personal income includes compensation from a number of sources, including salaries, wages, and bonuses received from employment or self-employment, dividends and distributions received from investments, rental receipts from real estate investments, and profit sharing from businesses.

Personal income is the gross earnings received by an individual or a household including all the sources of compensation such as wages, salaries, investments, and bonuses.

- Personal income is the amount of money collectively received by the inhabitants of a country.
- Sources of personal income include money earned from employment, dividends and distributions paid by investments, rents derived from property ownership, and profit sharing from businesses.
- Personal income is generally subject to taxation.

Types of Personal Income

1. **Nominal personal income (NPI)** - refers to the amount of income received from all types of activities. Taxes and mandatory costs are not included. It is mainly about money, that makes a personal budget and that we get on hand.
2. **Disposable personal income (DPI)** – define the amount of money that you actually use. In other words, it is a nominal income plus all mandatory costs such as rental housing, fees of utilities, etc.
3. **Real personal income (RPI)** – personal income while inflation is taken into account. RPI is useful for calculating fixed payments for an extended period of time

Formula

Personal Income = Salaries and Wages + Dividends + Interest + Bonus + Employer Contributions towards Retirement Benefits + Rent + Profits + All Other Source of Income

Personal Income = National Income + Income Received but Not Earned + Income Earned but Not Received

<u>GST</u>

The goods and services tax (GST) is a value-added tax (VAT) levied on most goods and services sold for domestic consumption. The GST is paid by consumers, but it is remitted to the government by the businesses selling the goods and services.

The goods and services tax (GST) is an indirect federal sales tax that is applied to the cost of certain goods and services. The business adds the GST to the price of the product, and a customer who buys the product pays the sales price inclusive of the GST. The GST portion is collected by the business or seller and forwarded to the government. It is also referred to as Value-Added Tax (VAT) in some countries.

Most countries with a GST have a single unified GST system, which means that a single tax rate is applied throughout the country. A country with a unified GST platform merges central taxes (e.g., sales tax, excise duty tax, and service tax) with state-level taxes (e.g., entertainment tax, entry tax, transfer tax, sin tax, and luxury tax) and collects them as one single tax. These countries tax virtually everything at a single rate.

- The goods and services tax (GST) is a tax on goods and services sold domestically for consumption.
- The tax is included in the final price and paid by consumers at point of sale and passed to the government by the seller.
- The GST is usually taxed as a single rate across a nation.
- Governments prefer GST as it simplifies the taxation system and reduces tax avoidance.
- Critics of GST say it burdens lower income earners more than higher income earners.

Critiques of the GST

A GST is generally considered to be a regressive tax, meaning that it takes a relatively larger percentage of income from lower-income households compared to higher-income households. This is because GST is levied uniformly on the consumption of goods and services, rather than on income or wealth.

Lower-income households tend to spend a larger proportion of their income on consumables, such as food and household goods, which are subject to GST. As a result, GST can disproportionately burden lower-income households.

Because of this, some countries with GST are discussing possible adjustments that might make the tax more progressive, which takes a larger percentage from higher-income earners.

Example: India's Adoption of the GST

India established a dual GST structure in 2017, which was the biggest reform in the country's tax structure in decades.10 the main objective of incorporating the GST was to eliminate tax on tax, or double taxation, which cascades from the manufacturing level to the consumption level.11

For example, a manufacturer that makes notebooks obtains the raw materials for, say, Rs. 10, which includes a 10% tax. This means that they pay Rs. 1 in tax for Rs. 9 worth of materials. In the process of manufacturing the notebook, the manufacturer adds value to the original materials of Rs. 5, for a total value of Rs. 10 + Rs. 5 = Rs. 15. The 10% tax due on the finished goods will be Rs. 1.50. Under a GST system, the previous tax paid can be applied against this additional tax to bring the effective tax rate to Rs. 1.50 – Rs. 1.00 = Rs. 0.50.

In turn, the wholesaler purchases the notebook for Rs. 15 and sells it to the retailer at a Rs. 2.50 markup value for Rs. 17.50. The 10% tax on the gross value of the good will is Rs. 1.75, which the wholesaler can apply against the tax on the original cost price from the manufacturer (i.e., Rs. 15). The wholesaler's effective tax rate will, thus, be Rs. 1.75 – Rs. 1.50 = Rs. 0.25.

Similarly, if the retailer's margin is Rs. 1.50, his effective tax rate will be (10% x Rs. 19) – Rs. 1.75 = Rs. 0.15. Total tax that cascades from manufacturer to retailer will be Rs. 1 + Rs. 0.50 + Rs. 0.25 + Rs. 0.15 = Rs. 1.90.India has, since launching the GST on July 1, 2017, implemented the following tax rates: 12

- A 0% tax rate applied to certain foods, books, newspapers, homespun cotton cloth, and hotel services.
- A rate of 0.25% applied to cut and semi-polished stones.
- A 5% tax on household necessities such as sugar, spices, tea, and coffee.
- A 12% tax on computers and processed food.
- An 18% tax on hair oil, toothpaste, soap, and industrial intermediaries.
- The final bracket, taxing goods at 28%, applies to luxury products, including refrigerators, ceramic tiles, cigarettes, cars, and motorcycles.

Who Has to Pay GST?

In general, goods and services tax (GST) is paid by the consumers or buyers of goods or services. Some products, such as from the agricultural or healthcare sectors, may be exempt from GST depending on the jurisdiction.

How Is GST Calculated?

The goods and services tax (GST) is computed by simply multiplying the price of a good or service by the GST tax rate. For instance, if the GST is 5%, a $1.00 candy bar would cost $1.05.

What Are the Benefits of the GST?

The GST can be beneficial as it simplifies taxation, reducing several different taxes into one straightforward system. It also is thought to cut down on tax avoidance among businesses and reduces corruption.

Are VAT and GST the Same?

Value-added tax (VAT) and goods and services tax (GST) are similar taxes that are levied on the sale of goods and services. Both VAT and GST are also indirect taxes, which means that they are collected by businesses and then passed on to the government as part of the price of the goods or services.

However, there are some key differences between the two. VAT is primarily used in European countries and is collected at each stage of the production and distribution process, while GST is used in countries around the world and is collected only at the final point of sale to the consumer. VAT is generally applied to a wider range of goods and services than GST, and the rate of VAT and GST can vary depending on the type of goods or services being sold and the country in which they are sold.

Types of GST

As per the newly implemented tax system, there are 4 different types of GST:

1. Integrated Goods and Services Tax (IGST)
2. State Goods and Services Tax (SGST)
3. Central Goods and Services Tax (CGST)
4. Union Territory Goods and Services Tax (UTGST)

Additionally, the government has fixed different taxation rates under each, which will be applicable to the payment of tax for goods and/or services rendered.

1. Integrated Goods and Services Tax or IGST

The Integrated Goods and Services Tax or IGST is a tax under the GST regime that is applied on the interstate (between 2 states) supply of goods and/or services as well as on imports and exports.

The IGST is governed by the IGST Act. Under IGST, the body responsible for collecting the taxes is the Central Government. After the collection of taxes, it is further divided among the respective states by the Central Government.

For instance, if a trader from West Bengal has sold goods to a customer in Karnataka worth Rs.5, 000, then IGST will be applicable as the transaction is an interstate transaction. If the rate of GST charged on the goods is 18%, the trader will charge Rs.5, 900 for the goods. The IGST collected is Rs.900, which will be going to the Central Government.

2. State Goods and Services Tax or SGST

The State Goods and Services Tax or SGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. In the case of an intrastate supply of goods and/or services, both State GST and Central GST are levied.

However, the State GST or SGST is levied by the state on the goods and/or services that are purchased or sold within the state. It is governed by the SGST Act. The revenue earned through SGST is solely claimed by the respective state government.

For instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5, 000, then the GST applicable on the transaction will be partly CGST and partly SGST. If the rate of GST charged is 18%, it will be divided equally in the form of 9% CGST and 9% SGST. The total amount to be charged by the trader, in this case, will be Rs.5, 900. Out of the revenue earned from GST under the head of SGST, i.e. Rs.450 will go to the West Bengal state government in the form of SGST.

3. Central Goods and Services Tax or CGST

Just like State GST, the Central Goods and Services Tax of CGST is a tax under the GST regime that is applicable on intrastate (within the same state) transactions. The CGST is governed by the CGST Act. The revenue earned from CGST is collected by the Central Government.

As mentioned in the above instance, if a trader from West Bengal has sold goods to a customer in West Bengal worth Rs.5, 000, then the GST applicable on the transaction will be partly CGST and partly SGST. If the rate of GST charged is 18%, it will be divided equally in the form of 9% CGST and 9% SGST. The total amount to be charged by the trader, in this case, will be Rs.5, 900. Out of the revenue earned from GST under the head of CGST, i.e. Rs.450 will go to the Central Government in the form of CGST.

4. Union Territory Goods and Services Tax or UTGST

The Union Territory Goods and Services Tax or UTGST is the counterpart of State Goods and Services Tax (SGST) which is levied on the supply of goods and/or services in the Union Territories (UTs) of India.

The UTGST is applicable on the supply of goods and/or services in Andaman and Nicobar Islands, Chandigarh, Daman Diu, Dadra, and Nagar Haveli, and Lakshadweep. The UTGST is governed by the UTGST Act. The revenue earned from UTGST is collected by the Union Territory government. The UTGST is a replacement for the SGST in Union Territories. Thus, the UTGST will be levied in addition to the CGST in Union Territories.

MONEY

Introduction

A medium of exchange that is centralized, generally accepted, recognized, and facilitates transactions of goods and services, is known as money. Money is a medium of exchange for various goods and services in an economy. The money system varies with the governments and countries.

The money came into existence to overcome the drawbacks of the barter system. Earlier, people use to exchange goods and services as a form of commerce. This often led to many disadvantages, one of which was the double coincidence of wants. To solve this problem, a standard medium of exchange, money, was introduced.

Definition

A medium of exchange that is centralized, generally accepted, recognized, and facilitates transactions of goods and services, is known as money.

- Money is a medium of exchange for various goods and services in an economy.
- The money system varies with the governments and countries.
- Different countries have different currencies.

- The central authority is responsible for monitoring the monetary system.
- There are many forms of money, and crypto currency is the newest addition to the forms of money and can be internationally exchanged.

Characteristics of Money

Fungible currency: A currency must be fungible which means that the units used as a currency must be equal in quality and shall be interchangeable. A non-fungible form of currency is not considered reliable for transactions.

- **Durable:** A good currency is durable enough to be used more than just one time. It should not be perishable. A perishable good or article should not be used as a currency because it cannot be used multiple times and also cannot be stored for future transactions. Therefore, to conserve the future-oriented use-value of the money, a currency must be durable.

- **Easily recognizable:** The users of the money must be ascertained of its authenticity. In other words, the currency must be universally recognized. An unrecognized currency or money leads to disagreement with the exchange terms. A recognized currency ensures trust in the money system as well as its acceptance.

- **Stability:** A currency must be stable in terms of value. In simple terms, money should have a constant or increasing value. Money cannot be unstable whose value keeps drastically changing. An unstable currency can give room to the risk of a sudden drop in value which can hamper the acceptance and authenticity of the money system.

- **Portable:** A currency must be portable and can be conveniently transported from one place to another. The money must be divisible into various quantities making its use better. Money if not portable can lead to an exceeded cost of transportation of the currency itself. Therefore, money should be able to be divided into further smaller units to facilitate smooth transactions of various quantities of goods. Secondly, it should be easily transferable and portable.

Functions of Money

- **Medium of exchange:**

Money is the generally accepted medium of exchange that is used to make all the transactions. Ex: payments of goods and payment of tax etc.

- **A measure of Value:**

Money expresses the value of every service as well as goods. Therefore, it is a common denomination.

- **Standard of deferred payments:**

Money is considered the standard for future payments. Ex: The payment of the electricity bill on the upcoming due date.

- **Store of value:**

It means that money is capable of being stored and transferring the purchasing power from today to the future. Ex: Using the money in a savings account to buy new furniture.

- **Distribution of social income:**

Income can easily be distributed with the help of money. Ex: Distribution of total money earned by a school in the form of salaries, wages, utility bills, etc.

- **Basis of Credit Creation:**

The "store of value" function of the money helps in credit creation by the banks. Ex: Using the money of demand deposits as a tool for credit creation.

- **Liquidity:**

Money is the most liquid asset of the economy. Ex: Credit cards, debit cards, cash.

Types of Money:

The following are the types of money:

1. **Market Determined Money**:

Any good that can be generally accepted by the people of the economy to exchange it indirectly for various goods and services between different parties is called Market determined money.

2. **Fiat Money and Legal Tender:**

The form of money that is issued by the government and is not backed by any commodity is known as fiat money. Ex: INR, Dollar, Pounds, etc. The term legal tender states the money that is legally issued by the government. Ex: Coins and Banknotes.

3. **Crypto currencies:**

Crypto currencies are an electronic medium of exchange that exists virtually. Crypto is a peer-to-peer system that runs on the block chain. In simple terms, it is an intangible form of currency and has opportunities for international exchange.

Monitory Policy:

Introduction

Monetary policy is the control of the quantity of money available in an economy and the channels by which new money is supplied.

Economic statistics such as gross domestic product (GDP), the rate of inflation, and industry and sector-specific growth rates influence monetary policy strategy.

A central bank may revise the interest rates it charges to loan money to the nation's banks. As rates rise or fall, financial institutions adjust rates for their customers such as businesses or home buyers.

Additionally, it may buy or sell government bonds, target foreign exchange rates, and revise the amount of cash that the banks are required to maintain as reserves.

Definition

Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies such as revising interest rates and changing bank reserve requirements.

- Monetary policy is a set of actions to control a nation's overall money supply and achieve economic growth.
- Monetary policy strategies include revising interest rates and changing bank reserve requirements.
- Monetary policy is commonly classified as either expansionary or contractionary.
- The Federal Reserve commonly uses three strategies for monetary policy including reserve requirements, the discount rate, and open market operations.

Types of Monetary Policy

Monetary policies are seen as either expansionary or contractionary depending on the level of growth or stagnation within the economy.

1. Contractionary:

A contractionary policy increases interest rates and limits the outstanding money supply to slow growth and decrease inflation, where the prices of goods and services in an economy rise and reduce the purchasing power of money.

2. **Expansionary:**

During times of slowdown or a recession, an expansionary policy grows economic activity. By lowering interest rates, saving becomes less attractive, and consumer spending and borrowing increase.

Goals/Objectives of Monetary Policy

- **Inflation:**

Contractionary monetary policy is used to target a high level of inflation and reduce the level of money circulating in the economy.

- **Unemployment:**

An expansionary monetary policy decreases unemployment as a higher money supply and attractive interest rates stimulate business activities and expansion of the job market.

- **Exchange Rates:**

The exchange rates between domestic and foreign currencies can be affected by monetary policy. With an increase in the money supply, the domestic currency becomes cheaper than its foreign exchange.

Tools of Monetary Policy

- **Open Market Operations:**

In open market operations (OMO), the Federal Reserve Bank buys bonds from investors or sells additional bonds to investors to change the number of outstanding government securities and money available to the economy as a whole. The objective of OMOs is to adjust the level of reserve balances to manipulate the short-term interest rates and that affect other interest rates.

- **Interest Rates:**

The central bank may change the interest rates or the required collateral that it demands. In the U.S., this rate is known as the discount rate. Banks will loan more or less freely depending on this interest rate.

- **Reserve Requirements:**

Authorities can manipulate the reserve requirements, the funds that banks must retain as a proportion of the deposits made by their customers to ensure that they can meet their liabilities.

Fiscal Policy

Introduction

Fiscal policy, measures employed by governments to stabilize the economy, specifically by manipulating the levels and allocations of taxes and government expenditures. Fiscal measures are frequently used in tandem with monetary policy to achieve certain goals.

The usual goals of both fiscal and monetary policy are to achieve or maintain full employment, to achieve or maintain a high rate of economic growth, and to stabilize prices and wages. The establishment of these ends as proper goals of governmental economic policy and the development of tools with which to achieve them are products of the 20th century.

In taxes and expenditures, fiscal policy has for its field of action matters that are within government's immediate control. The consequences of such actions are generally predictable: a decrease in personal taxation, for example, will lead to an increase in consumption, which will in turn have a stimulating effect on the economy. Similarly, a reduction in the tax burden on the corporate sector will stimulate investment. Steps taken to increase government spending by public works have a similar expansionary effect. Conversely, a reduction in government expenditure or an increase in tax revenues, without compensatory action, has the effect of contracting the economy. Fiscal policy relates to decisions that determine whether a government will spend more or less than it receives.

Definition

Fiscal policy is defined as the policy under which the government uses the instrument of taxation, public spending and public borrowing to achieve various objectives of economic policy.

Simply put, it is the policy of government spending and taxation to achieve sustainable growth.

- Fiscal policy in India aims to raise a considerable quantity of money to fund the government's various programmers through taxes. It aims to eliminate inequality in income and wealth distribution by giving sufficient incentives to the private sector.

- Fiscal policy refers to how government spends money and how it receives money through taxation.

- Fiscal policy is closely linked to the budget deficit and surplus as it dictates at how government spends and receives money.

Goals/Objectives of fiscal policy

A government has several **fiscal policy objectives** in mind when making decisions. Some governments may favor an objective over the other one. Below are the five main objectives of the fiscal policy.

1. **Economic growth**:

As an economy develops, its citizens become flourishing on the whole. Also, the economy's government should be careful, as a violent fiscal policy may turn destructive in the long run.

2. **Full employment**:

It is the primary objective of a government to get people into work. Not only do the higher taxes benefit the governments, but also the lower expenditures on social security. Although, an expansionary policy may invest in infrastructure to create employment opportunities in future. Likewise, it may also minimize taxes to supply more money to consumers to stimulate employment indirectly from purchases.

3. **Control debt**:

Operating a budget deficit is not harm. It creates more and more debt over time. If the tax receipts and economic growth do not increase its line, a nation witnesses an unsustainable debt. Thus, a rational fiscal policy tends to control to avoid drastic action.

4. **Redistribution**:

The transfer of wealth from rich to poor is another government's objective. High taxes may result in high tax receipts, but not always. Although avoidance and evasion may occur, small incremental increases may not be impactful in the short term.

5. **Control Inflation**:

When an economy develops strongly, it may witness inflation depending on the monetary policy. Although inflation is a monetary phenomenon, the government still takes necessary steps to stem such a situation. Nevertheless, governments take steps by increasing taxes to minimize disposable incomes and consumption.

Types of Fiscal Policy

1. **Expansionary Fiscal Policy:**

It involves all the actions taken by the government to invest more money back into the economy. Putting more money back into the economy creates more demand for services and products. It also expands the job opportunities and increases the profit for the people and government. In other words, it stimulates economic growth.

2. **Contractionary Fiscal Policy:**

Contractionary fiscal policy is the second type of fiscal policy, and it is normally used at the time of a boom in the economy. Sometimes expansion in the economy can also be dangerous, so in this case, the government tries to slow down the expansion so that it could not become so intense. This type of fiscal policy helps make the growth of the economy manageable and controls inflation.

Tools of Fiscal Policy

There are two key tools of the fiscal policy:

1. **Taxation:**

Funds in the form of direct and indirect taxes, capital gains from investment, etc, help the government function. Taxes affect the consumer's income and changes in consumption lead to changes in real gross domestic product (GDP).

2. **Government spending:**

It includes welfare programmers, government salaries, subsidies, infrastructure, etc. Government spending has the power to raise or lower real GDP; hence it is included as a fiscal policy tool.

Banking

Introduction

A bank is any financial institution that helps people and businesses store, invest and borrow money. It plays an important role in the movement of money through the economy.
Banks provide services like deposits, loans, and investment options. There are many types of specialized banks that provide specific services to certain members of the economy, like businesses, startups, individuals, and more.

Banks in India are regulated by the Reserve Bank of India (RBI), which is the central banking authority of the country. Every country has a central bank, like the Federal Reserve in the U.S. and the European Central Bank.

Definition

Banking is the business of protecting money for others. Banks lend this money, generating interest that creates profits for the bank and its customers. A bank is a financial institution licensed to accept deposits and make loans. But they may also perform other financial services.

Banking

Banking is the industry that allows people and businesses to deposit, borrow and transfer money. The banking industry has been an important part of the economy ever since humans started using money.

Importance of banking

Banks play a very important role in the economy. They allow money to flow through the economy by providing credit, investment facilities and financial infrastructure.

Origin of banking

Banking originated in the ancient world out of a need to keep extra money or gold safe. People also needed loans to grow crops or grain when times were hard. The basic functions of banking have more or less remained the same in modern times.

Functions of Banking

1. Money Storage:

Both individuals and businesses store their money in banks. Apart from being a safe place to keep money, banks also provide **savings accounts** that give the account owner interest on their deposit so that the money is not sitting idle.

2. Loan Facility:

Banks also give out loans to both individuals and businesses. These loans are to be paid back over a period of time with a certain amount of interest added.

3. Corporate Finance Management:

Special kinds of banks called investment banks help businesses with complex financial transactions like mergers and acquisitions or IPOs.

4. **Regulating the Economy:**

Banks play an important role in maintaining the balance of the economy. By controlling the amount of money that circulates in the country, banks control the spending power of the people.

Types of Banks

There are three kinds of banks in our country:

Commercial Banking:

- These are banks that service individual customers.
- They offer loans, investment options, and even Demat accounts for stock trading.

Corporate Banking:

- These banks specialize in the complex financial needs of large institutions.
- Corporate banking services include current accounts, checking accounts, escrow accounts, and credit facilities.

Central Banking:

- These banks are the central regulatory authority of all banks in a country.
- In India, banks are regulated by the Reserve Bank of India.

RBI

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Kolkata but was permanently moved to Mumbai in 1937.The Reserve Bank of India, chiefly known as RBI, is India's central bank and regulatory body responsible for regulation of the Indian banking system. It is under the ownership of Ministry of Finance, Government of India. It is responsible for the control, issue and maintaining supply of the Indian rupee. It also manages the country's main payment systems and works to promote its economic development. Bharatiya Reserve Bank Note Mudran (BRBNM) is a specialized division of RBI through which it prints and mints Indian currency notes (INR) in four of its currency printing presses located in Nashik (Maharashtra; Western India), Dewas (Madhya Pradesh; Central India), Mysore (Karnataka; Southern India) and Salboni (West Bengal; Eastern India). The RBI established the National Payments Corporation of India as one of its specialised division to regulate the payment and settlement systems in India. Deposit Insurance and Credit Guarantee Corporation was established by RBI as one of its specialized division for the purpose of providing insurance of deposits and guaranteeing of credit facilities to all Indian banks.

Functions of RBI

1. **Issue of Notes:**

The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance). The Reserve Bank has adopted the Minimum Reserve System for issuing/printing the currency notes. Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.

2. **Banker to the Government:**

The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

3. **Banker's Bank:**

The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

4. **Controller of the Credit:**

The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. When RBI observes that the economy has sufficient money supply and it may cause an inflationary situation in the country then it squeezes the money supply through its tight monetary policy and vice versa.

5. **Custodian of Foreign Reserves:**

For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently, India has a Foreign Exchange Reserve of around US$ 487 bn.

6. **Other Functions:**

The Reserve Bank performs a number of other developmental works. These works include the function of clearinghouse arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc. It also acts as the representative of the Government in the International Monetary Fund (I.M.F.) and represents the membership of India.

CRR

The cash reserve is the amount of capital a bank has. The Cash Reserve Ratio (CRR) is the percentage of total deposits a bank must have in cash to operate risk-free. The Reserve Bank of India decides the amount and is kept with them for financial security. The bank cannot use this amount for lending and investment purposes and does not get any interest from the RBI. CRR applies to scheduled commercial banks, while the regional rural banks and NBFCs are excluded.

Key objectives of the CRR

Following are the critical objectives of the Cash Reserve Ratio.

- CRR helps control inflation. In a high inflation environment, RBI can increase CRR to prevent banks from lending more.
- CRR also ensures banks have a minimum amount of funds readily available to customers even during huge demand.
- CRR serves as the reference rate for loans. Also known as the base rate for loans, the banks cannot offer loans below this rate.
- Since CRR regulates the money supply, it boosts the economy whenever required by lowering the Cash Reserve Ratio.

Formula

CRR = (Liquid Cash/NDTL) * 100

The Cash Reserve Ratio is calculated based on the bank's net demand and time liabilities (NDTL). Net demand and time liability can be defined as the total deposits of the bank with the public or other banks minus the deposits of other banks. Liabilities such as current deposits, cash certificates, demand drafts, fixed deposits (FDs), gold deposits, dividends etc., constitute NDTL.

SLR

Statutory liquidity ratio (SLR) is the Government term for the reserve requirement that commercial banks are required to maintain in the form of cash, gold reserves, Govt. bonds and other Reserve Bank of India (RBI)- approved securities before providing credit to the customers. The SLR to be maintained by banks is determined by the RBI in order to control liquidity expansion. The SLR is determined as a percentage of total demand and time liabilities. Time liabilities refer to the liabilities which the commercial banks are liable to repay to the customers after an agreed period, and demand liabilities are customer deposits which are repayable on demand. An example of a time liability is a six-month fixed deposit which is not payable on demand but only after six months. An example of a demand liability is a deposit maintained in a saving account or current account that is payable on demand.

Objectives of SLR

Statutory Liquidity Ratio has mainly two objectives at its core.

1. **To prevent over liquidating:**

One of the main objectives of SLR is to prevent commercial banks from over-liquidating. This may occur in the absence of the ratio. It may even happen when the Cash Reserve Ratio increases and when banks require funds. To have control over a bank's credit, the RBI has an SLR regulation employed. This helps the RBI to ensure that there are no solvencies in commercial banks and that the banks invest in government securities.

2. **To monitor the flow of bank credit:**

SLR is in action to increase or decrease the flow of credit offered by banks in the country's economy. The RBI raises the limit of SLR in times of inflation and reduces the same during the recession.

Formula

Below is the formula for calculating the Statutory Liquidity Ratio: –

Statutory Liquidity Ratio = LA / NTDL
Here,

A liquid asset represents LA.

Net time-based and demand liabilities represent NTDL.

REPO RATE

Introduction

Repo Rate full form or the term 'REPO' stands for 'Repurchasing Option' Rate. It is also known as the 'Repurchasing Agreement'. People take loans from banks in times of financial crunch and pay interest for the same. Similarly, commercial banks and financial institutions also face a shortage of funds. They can also borrow money from the country's apex bank. The Central Bank of any nation lends money to commercial banks at an interest rate on the principal amount.
If banks take a loan against any kind of security, then this ROI is Repo Rate. Commercial banks sell eligible securities to the RBI, such as treasury bills, gold, and bond papers. When the loan is repaid, banks can repurchase the securities from the RBI. As a result, it's known as the 'Repurchasing Option.' If they take a loan without pledging the securities, it is at the Bank Rate.

Definition

Repo Rate is the rate at which the Reserve Bank of India (RBI) lends money to commercial banks or financial institutions in India against government securities. The current Repo Rate 2023 stands at 6.50%. Changes in Repo Rate affect the flow of money in the market.

REVERSE REPO RATE

Introduction

The reverse repo rate is contrary to RBI's repo rate. It is applied to the interest paid by the RBI. When banks have surplus money, they deposit funds with the RBI and earn interest. This rate is the reverse repo rate.

In turn, the RBI uses those excess funds to create liquidity in the economy. Lowering the reverse repo rate also helps the RBI increase the purchasing power in the nation.

Reverse repo rate is said to be that rate of interest at which the central bank (RBI in India) borrows money from the commercial banks for a short term. It helps the central bank to have a ready source of liquidity at the time of need. RBI offers great interest rates in return for the amount supplied by the commercial banks.

Commercial banks also keep the excess funds that they receive with RBI as it is considered safe. The added benefit is that RBI will also pay interest, which gives the banks an option to earn interest on their idle money.

Definition

Reverse repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country.

BANK RATE

Bank rate is a rate at which the Reserve Bank of India (RBI) provides the loan to commercial banks without keeping any security. There is no agreement on repurchase that will be drawn up or agreed upon with no collateral as well. The RBI allows short-term loans with the presence of collateral.

The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section 49 of the RBI Act, 1934.

Current Rates of RBI:

Rate	**%**
Repo Rate	6.50%
Reverse Repo Rate	3.35%
Bank Rate	6.75%
Marginal Standard Facility Rate	6.75%