Q7. What are the alternative definitions of money supply in India?

Ans: The various definitions of money supply in India as prescribed by RBI are M_1, M_2, M_3 and M_4.

M_1, M_2, M_3 and M_4 are arranged in the descending order of liquidity. In other words, M_1 has the highest liquidity and M_4 has the least liquidity.
So,

M_1 = C + DD + OD
Where,
C = Currency held by public
DD = Net demand deposits of the bank
OD = other deposits held by RBI

M_2 = M_1 + Savings of the people with Post offices (M_2 includes the components of M_1 as well as the savings of people with Post office.)

M_3 = M_1 + Net time deposits with commercial banks (M_3 is the most commonly used measure of money supply. It includes the components of M_1 and net time deposits of commercial banks.)

M_4 = M_3 + Total deposits with post offices (excluding National Saving certificate)

All these definitions of money supply in India are represented in the flow chart given below.

Q8. What is a 'legal tender'? What is 'fiat money'?
Ans: Legal tender refers to the currency notes and coins being issued by the monetary authorities of India (RBI and government of India) as a legal medium of payment. Fiat money derives its value

only because of government order (fiat). The currency becomes fiat money when the government declares it to be the legal tender. This is not backed by reserves, but by faith or trust. This money does not have intrinsic value, i.e. the real value is not equivalent to the face value printed on the notes and coins.

*********** END **********