

Unit 1 - National Income Accounting

Any variable (real or nominal) when calculated by using market prices (of base year or current year) we call the variable to be calculated at market prices. When we subtract the value of net indirect taxes from the value of the variable at market prices we call it to be calculated a factor cost.

For example:

$$GDP \text{ at market price} - \text{net indirect taxes} = GDP \text{ at factor cost}$$

Or

$$GNP \text{ at market price} - \text{net indirect taxes} = GNP \text{ at factor cost}$$

Unit 2 - Banking and Finance

Demand for Money:

Individuals demand money out of three reasons:

1. Transactions demand for money- this demand for money arises in order to meet expenditure or transactions for goods and services on a day-to-day basis. Such demand is dependent on income (Y)
2. Precautionary demand for Money – This demand for money arises when there is hoarding of money to meet unexpected financial exigencies. Such demand is also dependent on income (Y).
3. Speculative demand for money- The demand for money when there is an expectation of capital loss/gain in interest bearing bonds/consols is called the speculative demand for money. This demand for money is dependent on rate of Interest (r) on bonds/consols.

The money demand (M_d) function can be written as :

$$M_d = f(Y, r)$$

where $\frac{\partial M_d}{\partial Y} > 0$ and $\frac{\partial M_d}{\partial r} < 0$ implying that there is a direct relationship between money demanded and income while there is an indirect or inverse relationship with money demanded and rate of interest.

Central Bank – A central Bank is the monetary authority of the country concerned. It regulates the banking system of an economy, frames monetary policies, acts as a banker to the Government. It generally has the exclusive right to print currency in the country. It has various other regulatory and supervisory roles in the country.

Commercial Banks – Commercial banks directly deal with the public. Their primary aim is to act as an intermediary between savers and borrowers. It accepts deposits and lends to the general public and corporations. It cannot print currency and seldom provides any policy assistance.

References:

1. Ghosh. C., & Ghosh, A. "Macroeconomics" 2nd Edition.
2. Mankiw. N.G., "Macroeconomics" 8th edition.