

Money Supply

Meaning

Money Supply refers to total volume of money held by public at a particular point of time in an economy.

Features of Money Supply:

1. It includes 'money held by public only'. The term 'public' signifies the money-using sector, i.e. individuals and business firms. It does not include money-creating sector, i.e. Government and banking system as cash balances held by them do not come into actual circulation in the country.
2. It is a 'Stock Concept', i.e. it is concerned with a particular point of time.

Concept of Money Supply

The supply of money means the total stock of money (paper notes, coins and demand deposits of bank) in circulation which is held by the public at any particular point of time. Supply of money is only that part of total stock of money which is held by the public at a particular point of time. In other words, money held by its users, (and not producers) in spendable form at a point of time is termed as money supply.

There are four measures of money supply in India which are denoted by M1, M2, M3, M4. This classification was introduced by the Reserve Bank of India (RBI) in April 1977. Prior to this till March 1968, the RBI published only one measure of the money supply, M or defined as currency and demand deposits with the public. This was in keeping with the traditional and Keynesian views of the narrow measure of the money supply. From April 1968, the RBI also started publishing another measure of the money supply which it called Aggregate Monetary Resources (AMR). This included M plus time deposits of banks held by the public. This was a broad measure of money supply which was in line with Friedman's view. But since April 1977, the RBI has been publishing data on four measures of the money supply which are discussed as under.

M1 = Currency with the public + Demand deposits with the banking system + 'other' deposits with the RBI.

M2 = M1 + Savings deposits of post office savings banks.

M3 = M1 + Time deposits with the banking system.

M4 = M3 + All deposits with post office savings banks (excluding National Savings Certificate).

Reserve Money (Mo) = Currency in circulation + Banker's deposits with the RBI + 'other' deposits with the RBI.

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