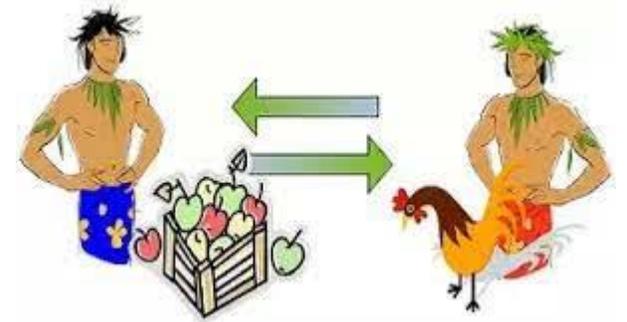


Money

# Barter System



**Goods Exchanged for Goods**

# Drawbacks of Barter System

# Barter System Drawbacks

## Drawbacks

Double Coincidence of  
Wants

Lack of Common unit of  
Value

Difficulty of Future  
Payments or Contractual  
Payments

Difficulty of Storage of  
Value and Transfer

# Barter System-Double Coincidence of Wants

Want of Wheat  
Surplus of Rice



Want of Rice  
Surplus of Wheat



Limitation



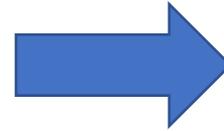
C-C Economy (Commodity for Commodity)

# Money System-Double Coincidence of Wants

Want of Wheat  
Surplus of Rice



Buy Wheat on one day



Want of Rice  
Surplus of Wheat



Sell Rice on some other day



Money as a medium of exchange has separated the acts of sale and purchase

# Lack of Common Unit of Value

## Barter System



## Monetary System

**Rs 5 Lacs**



What is the value of your car  
Under Barter System?

It could be 100 cows or 200 horses or 100 tons of wheat,  
etc.

# Difficulty of Future Payments

## Barter System



## Monetary System

**Rs 500 per  
day**

How do you pay a laborer  
under Barter System?

In terms of tables and chairs  
or bicycle or vegetables

# Storage/Transfer of Value is difficult

Saving is possible only by storage of goods



Substantial  
Storage Costs

Fear of Loss due to  
Natural Disasters



Transfer of savings from one place  
to another difficult and costly

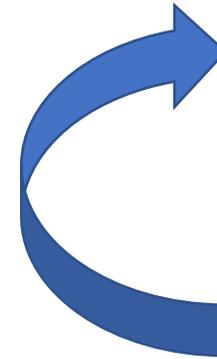


# Money Eliminated all Problems

Money as a medium  
of exchange  
separated the acts  
of sale and  
purchase



Money acts as a Common  
unit of Value



## Evolution of Money Solved all problems

Money has  
facilitated  
contractual or  
future payments



Money as a storage  
of value is very  
cheap and easy to  
transfer



# What is Money

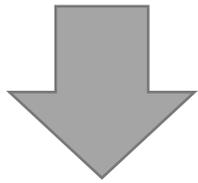
# Money Evolution



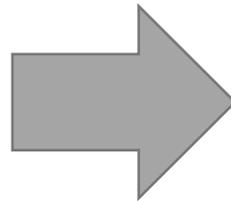
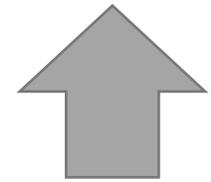
Gold and Silver Coins

Plastic Money

E Money



A thing that is commonly accepted as a medium of exchange is called Money



Metal Coins

Paper Money

# Basic Functions of Money

It acts as a medium of exchange to satisfy human wants

Medium of Exchange

Express Value of Goods and Services in terms of Money

Measure of Value

**Money is what  
money does**

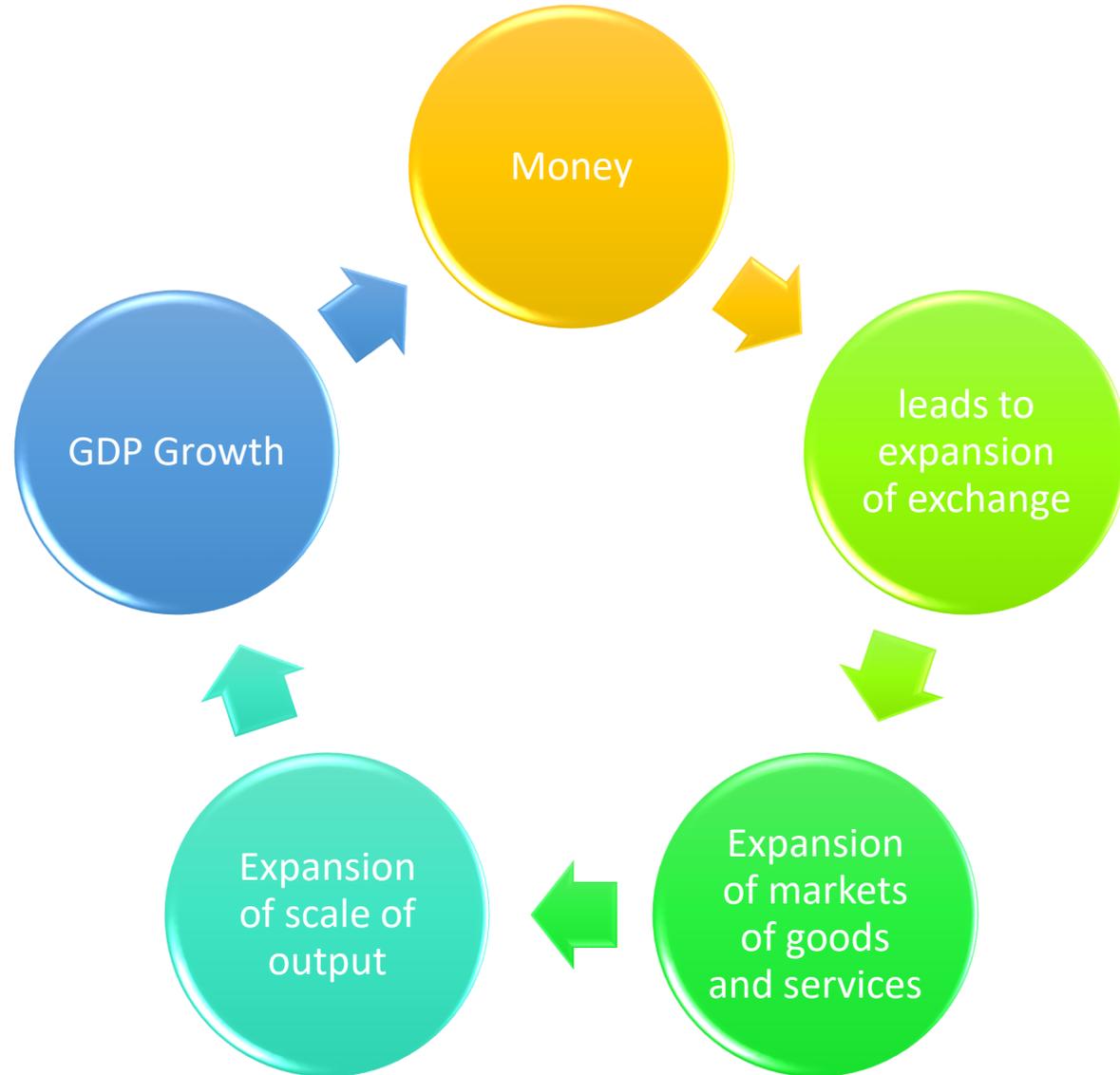
Savings are done in terms of money

Store of Value

Money is used for making Future (Contractual) Payments

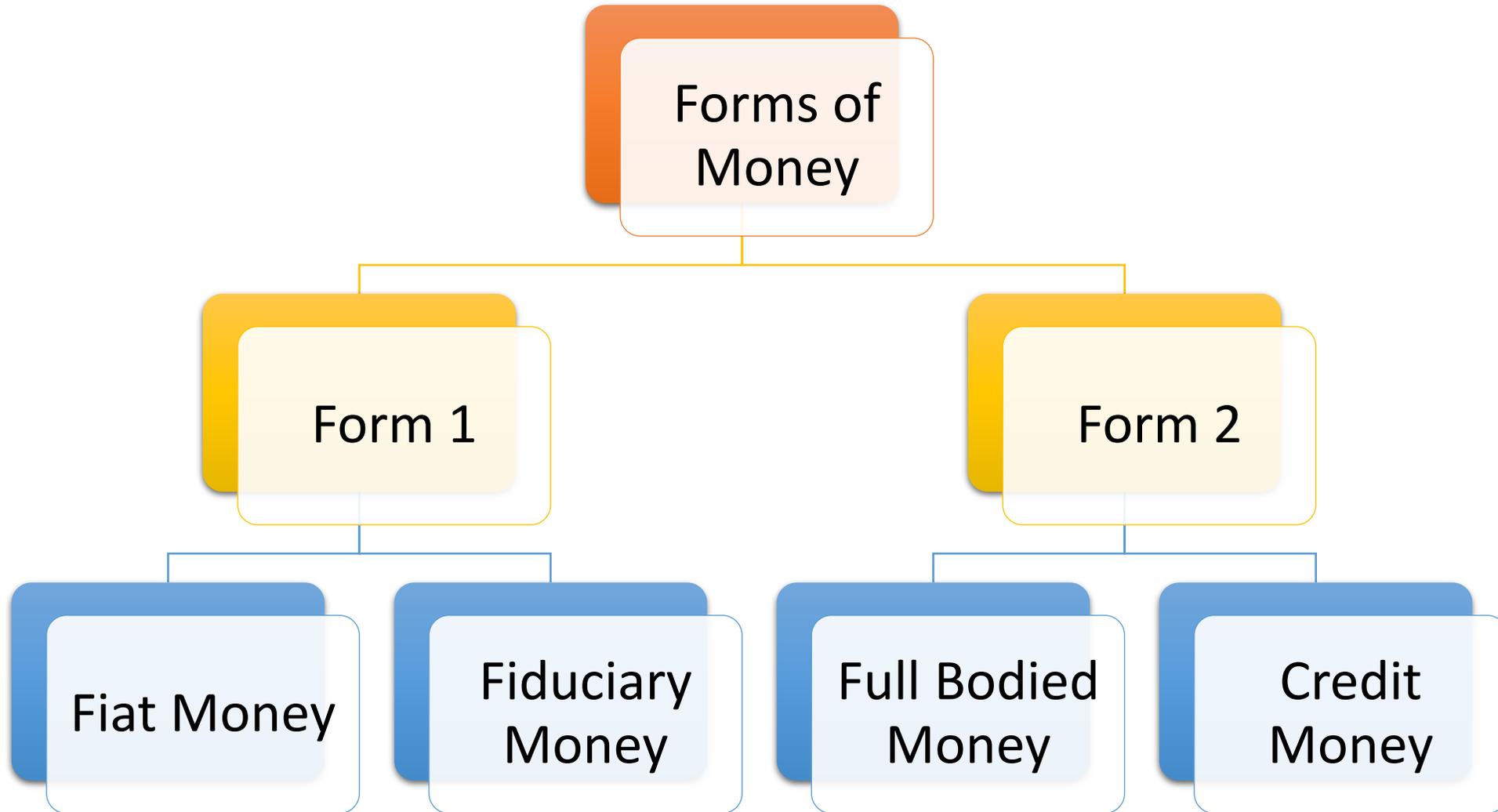
Standard for Future Payments

# Money led to GDP Growth



# Forms of Money

# Forms of Money



# Forms of Money

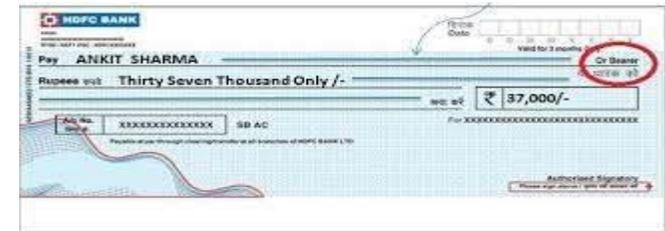
Money Issued by authority of the Government and includes all notes and coins

## Fiat Money/Legal Tender



People in country are legally bound to accept

Not due to order of any government



## Fiduciary Money

Accepted as a medium of exchange because of trust between payer and payee. Example - Checks

# Forms of Money

Money in terms of Coins whose commodity value is equal to the money value

## Full Bodied Money



Money Value = Commodity Value

Example – Silver coins in British period

Market value of silver is same as the silver contained in it

Market value of metal in it is much lower than its money value

Example – Metal Coins now a days

Money Value > Commodity Value



## Credit Money

Money value is more than Commodity Value

# Supply of Money

# Stock of Money

Total Stock of Money at any point in time is held by

Consumers of Money

People of the country



Supply of Money

Suppliers/Producers of Money

Not part of Supply of Money

Government



Banking System



# Supply of Money

## Stock Concept

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**Includes only money held by people of the country**

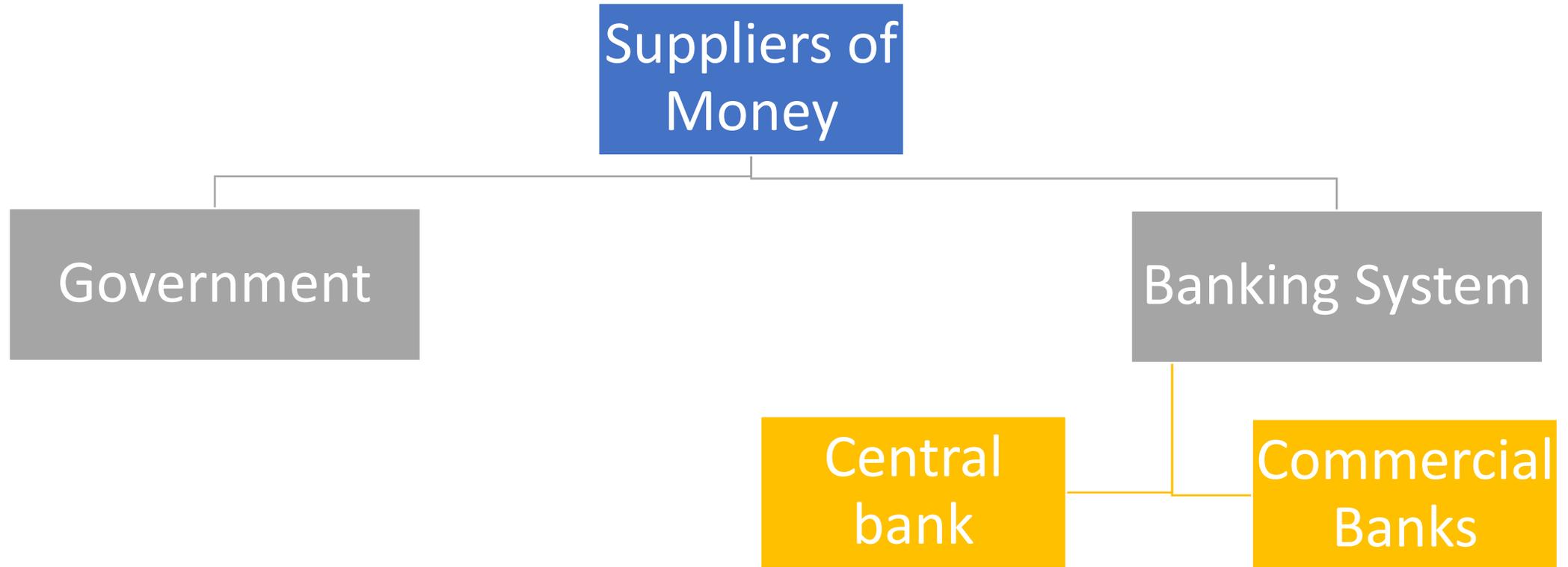
**Excludes money held by Government and Banking system who are suppliers of money**

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Includes Stock of money held by those who demand money

Excludes Stock of money held by those who supply money

# Who are Suppliers/Producers of Money



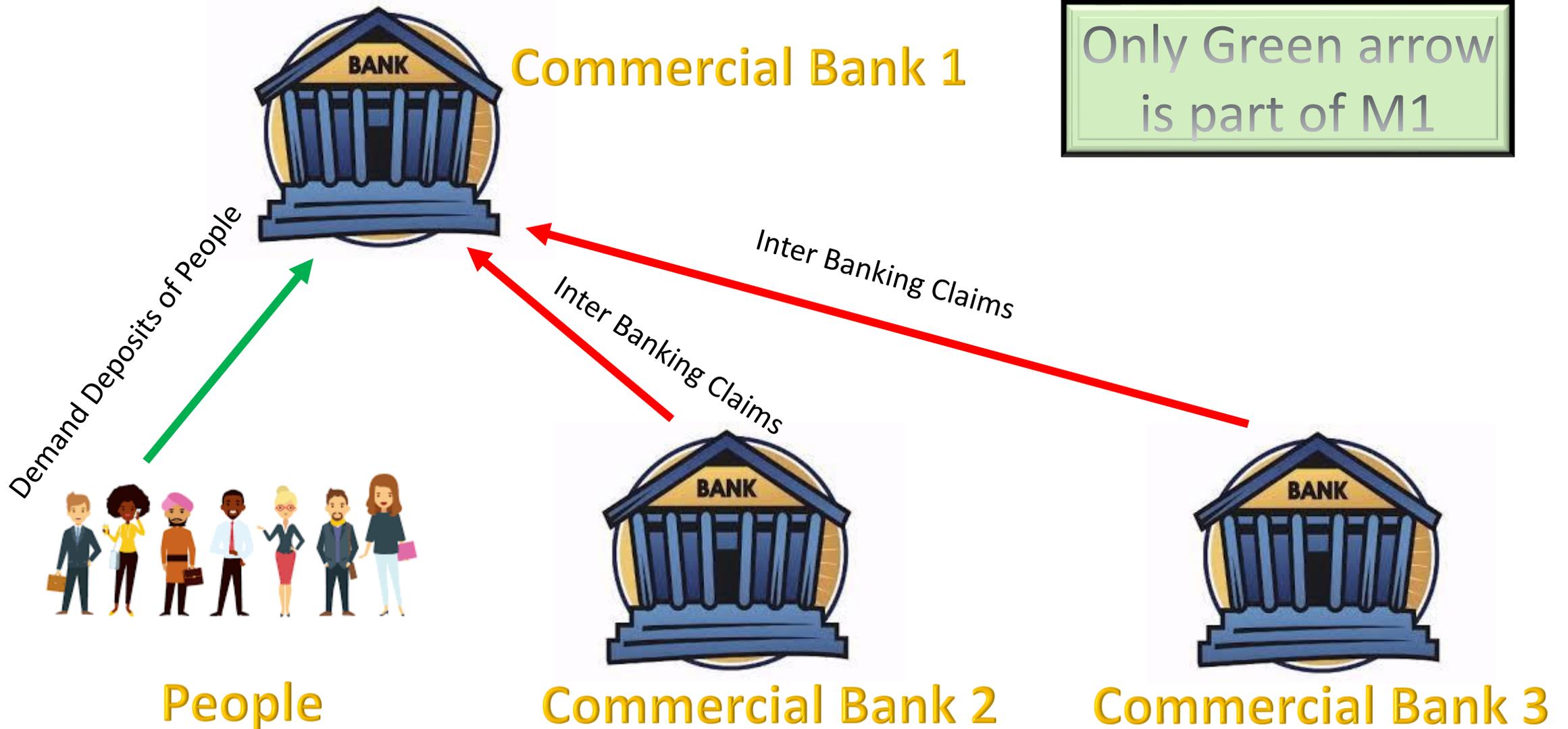
# Measures of Money Supply

# Term Deposits vs Demand Deposits

Term Deposits	Demand Deposits
Always for a specified period of time	Not for any specific period of time
Depositors cannot withdraw money as and when needed	Depositors can withdraw money as and when needed
These are not chequeable deposits	These are chequeable deposits
Example –Fixed Deposits 1 year, 2 year, 5 years, etc.	Savings A/c and Current A/c
<u>Not included in M1</u>	<u>Included in M1</u>

## Meaning and Difference

# M1 includes only Net Demand Deposits



# Measurement of Money Supply

In India there are four measurements of money supply

M1

M2

M3

M4