❖ **MONEY**:- Money is what money does. It is defined as an instrument that serves as a medium of exchange, store of value, a measure of value and a standard for deferred payments.

❖ **BASIC FUNCTIONS OF MONEY**:-

1. Acts as a medium of exchange
2. Serves as a store of value (people save in terms of money)
3. Measure of value: market price of goods and services is expressed in terms of money
4. Serves as a standard for deferred payments (future payments): When business contracts are signed on the basis of future payments, money acts as an instrument for those payments.

❖ **SUPPLY OF MONEY**:-

❖ **THE CONCEPT OF MONEY SUPPLY**:- **Supply of Money is a stock concept. It refers to total stock of money (of all types) held by the people of a country at a point of time.** Supply of money does not include:

1. Stock of money held by the government.
2. 2. Stock of money held by the banking system of a country. Because, government and the banking system of a country are suppliers of money.
3. The stock of money held by the suppliers of money is never treated as a part of the supply of money in the country.

**Supply of money includes only that stock of money which is held by those, who demand money, not by those who supply money.**

❖ **MEASUREMENT OF MONEY SUPPLY**:- In India, there are four alternative measures of money supply, popularly known as Ml, M2, M3 and M4.

❖ **Ml MEASUREMENT**:- According to M1 measurement, money supply includes the following components:

**M1 = C+DD+OD**

Here,

C = It refers to currency held by the public. It includes coins as well as paper notes.

DD: It refers to demand deposits of people with the commercial banks. These are chequeable deposits which can be withdrawn or transferred on demand.

OD: These are other deposits which include:

1. Demand deposits with RBI of public financial institutions like NABARD (national bank of agricultural and rural development).
2. Demand deposits with RBI of foreign central banks of the foreign governments.
3. Demand deposits of international financial institutions like IMF and world bank. **Specially, OD does not include:**

a. Deposits of the government of the country with RBI.

b. Deposits of the cwintry's banking system with RBI.

**Net Demand Deposits and Gross Demand Deposits**

Distinction may be drawn between gross demand deposits and net demand deposits with the commercial banks Gross demand deposits include inert-banking claims: claims of one bank against the other. Net demand deposits do not include inter-banking claims are not a part of demand deposits of the people.

**Note of caution**

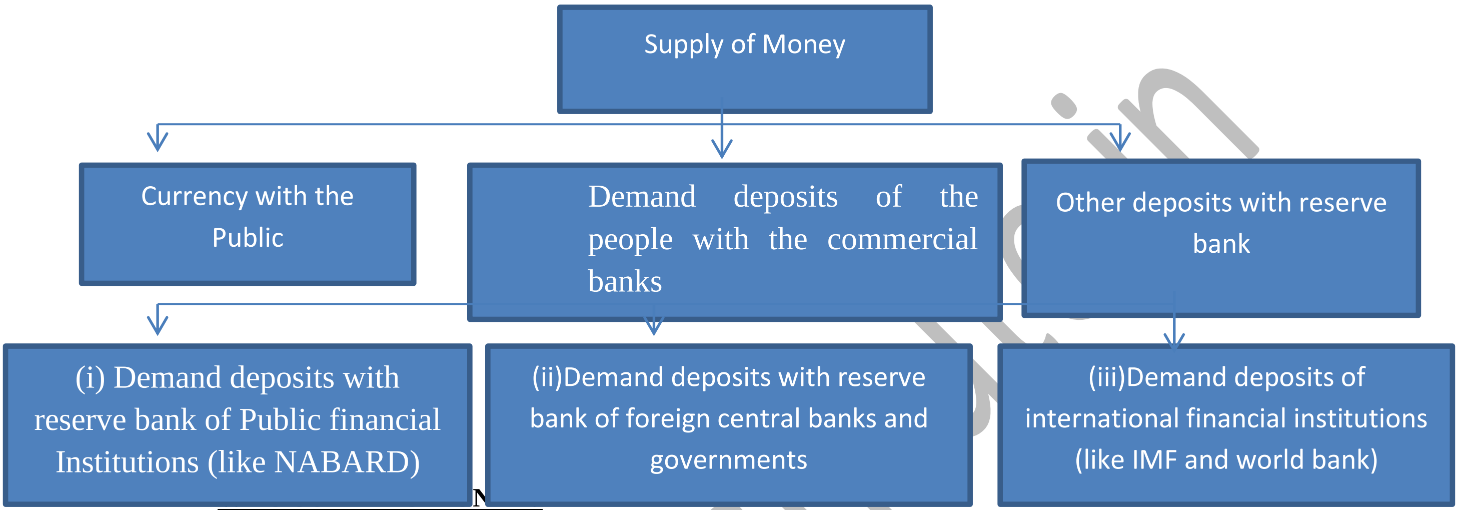
Only net demand deposits are taken as a part of money supply.

❖ **TERM DEPOSITS AND DEMAND DEPOSITS**:- Terms deposits are different from demand deposits:

1. Term deposits are always for a specific period of time, like fixed deposits for a period of one year or two years. Demand deposits are not for any specific period of time.

2. Depositors cannot withdraw money (in fixed deposits) as and when needed. Money in demand deposits can be withdrawn as and when needed.
3. Term deposits are chequeable deposits. You cannot sign a cheque these deposits. Demand deposits are chequeable deposits. These are: (a) saving account deposits, and (b) current account deposits. You can sign a cheque and withdrew / transfer money from these accounts.

| **Note of caution** |
| --- |
| In the context of M1 measurement of money supply, only demand deposits are considered as a part of money supply, NOT the term deposits (Demand Deposits = Saving Account Deposits + Current account Deposits). |




Suppliers of money include:

1. The government
2. Central bank of the country
3. Commercial banks.

In India, RBI is the principal supplier of money. RBI issues currency on the basis of minimum reserve system. Under this system, Reserve Bank maintains a minimum reserve of Rs. 200 crore in the form of gold and foreign securities. Of this reserve, value of the gold must be Rs. 115 crore.

**Commercial banks** do not have the authority of issuing currency. The commercial banks cannot issu notes and coins. Yet, they are the suppliers of money as they create money by way of demand deposit The commercial banks are required to keep some cash reserves with the RBI.

**Demand deposits** serve as supply of money because these are chequeable deposits. People c withdraw or transfer money by writing cheques. **Money created by the commercial banks by way of demand deposits is called bank money.** Government is the third source of money supply in the country. In India, the Ministry of Finance issues one ruppe notes and coins of all denomination.