

## Unit - 1

# Money, Savings and Investments



"Learning gives creativity, creativity leads to thinking, thinking provides knowledge, knowledge makes you great".

–A.P.J. Abdul Kalam



## Learning Objectives

- ▶ To know about the Evolution of Money
- ▶ To know about the value, nature, function, and importance of money
- ▶ To understand about Savings and Investments
- ▶ To know about the black money



## Introduction

Money is a fascinating subject and full of curiosities. It is important to capture this element for the students. The history of money and how various forms were used at different times is an interesting story. Modern forms of money are linked to the banking system.

Money is a fundamental discovery, which has eased the day to day transactions, valuing goods and services and has allowed us to store the wealth and trade in future. "Money is anything which is widely accepted in payment for goods or in discharge of other business obligations" Robertson.

## Evolution of Money

The word Money is derived from Roman word "Moneta Juno". It is the roman goddesses and the republic money of roman empire. The Indian rupee is derived from Sanskrit word 'Rupya' which means silver coin. Today we use paper notes, coins as money. But the evolution of this stage has not happened overnight. It took thousands of years to reach such a stage. There are many stages of evolution of money. The earliest and primitive stage is Barter system.

### Barter system

Barter system is exchanging goods for goods without the use of money in the primitive stage. A barter system is an old method of exchange. This system has been used for centuries and long before money was invented. People exchanged services and

goods for other services and goods in return. The value of bartering items can be negotiated with the other party. Bartering doesn't involve money which is one of the advantages.

Hence Barter system had many deficiencies like,

1. Lack of double coincidence of wants,
2. Common measure of value
3. Indivisibility of commodities
4. Difficulties of storing wealth

## Major stages of Evolution of Money

Commodity Money, Metallic Money, Paper Money, Credit Money or Bank Money, Near Money and recent forms of Money. Money has evolved through different stages according to the time, place and circumstances.

## Commodity Money

In the earliest period of human civilization, any commodity that was generally demanded and chosen by common consent was used as money. Goods like furs, skins, salt, rice, wheat, utensils, weapons etc. were commonly used as money. Such exchange of goods for goods was known as 'Barter Exchange'.

## Metallic Money

With progress of human civilization, commodity money changed into metallic money. Metals like gold, silver, copper, etc. were used as they could be easily handled and their quantity can be easily ascertained. It was the main form of money throughout the major portion of recorded history.

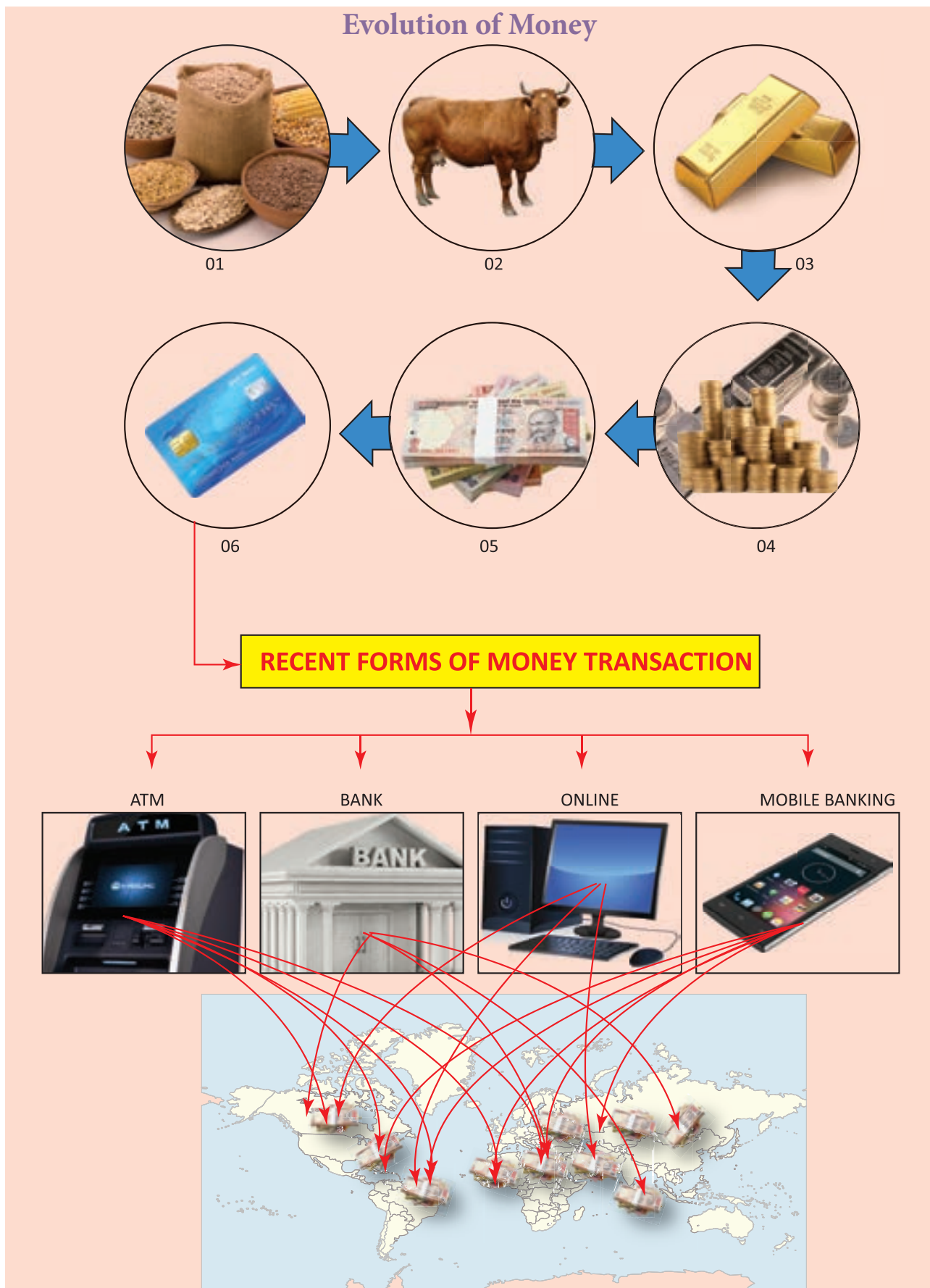
During the ancient time.....

### BARTER SYSTEM:

*Goods and Services are traded in exchange for other good.*



Barter system





## History of Metallic Money

The precious metals especially gold, silver, bronze were used for metallic money. The standard weight and fineness of metal particularly gold and silver with a seal on it became medium of exchange. They were of different denomination easily divisible, portable and were convenient in making payment.

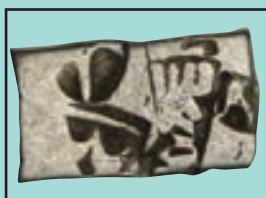
King Midas of Lydia innovated metal coin in the 8<sup>th</sup> century BC (BCE) by the ancient historian Herodotus. But gold coins were in use in India many centuries than in Lydia.

The earliest issuers of coins in the world are the ancient Indians along with Chinese and Lydians from the middle east. The first time Indian coins were minted in the 6<sup>th</sup> century BC (BCE) by the Mahajanpadas known as Puranas, Karshapanas or Panas.

The Mauryas came up with the Punch Marked Coins minting of silver, gold copper or lead and Indo-Greek Kushan kings introduced the Greek custom of engraving portraits on the coins. Turkish sultans of Delhi replaced the royal designs of Indian kings with Islamic Calligraphy by the 12<sup>th</sup> century AD (CE). The currency was made up of gold, silver and copper known as Tanka and lower valued coin known as Jittals.

The Mughal Empire from 1526 AD (CE) consolidated the monetary system for the entire empire. In this era evolution of rupee occurred with Sher Shah Suri defeated Humayun and issued a silver coin of 178 gms known as rupiya and was divided into 40 copper pieces or paisa and during the whole Mughal period silver coin remained in use. During the British East India company i.e. 1600, the Mughal currency remained popular but in 1717 AD (CE), Farrukhsiyar the Mughal Emperor gave permission to the British to coin Mughal Money at the Bombay mint. The British gold coins were termed as Carolina, the silver coins as Angelina, the copper coins as cupperoon and the tin coins as tinny.

### METALIC MONEY



Maurya



Maurya



Karshapanas



Delhi Sultan



Delhi Sultan



Tanka - Shersha suri



Shersha Suri Coin



Maurya

### Metallic Money

## Paper Money



It was found inconvenient as well as dangerous to carry gold and silver coins from place to place. So, invention of paper money marked a very important stage in the development of money. The development of paper money started on the basis of storage of gold and the receipts were issued by the goldsmiths for these storages. These receipts of goldsmiths were a substitute for money and became paper money. Paper money is regulated and controlled by Central Bank of the country. In India, printing, regulating, controlling the paper currencies are done by the Reserve Bank of India (RBI) which was established in 1935. At present, a very large part of money consists mainly of currency notes or paper money issued by the Reserve Bank of India.

### ACTIVITY: 1

Fill in the following Table:

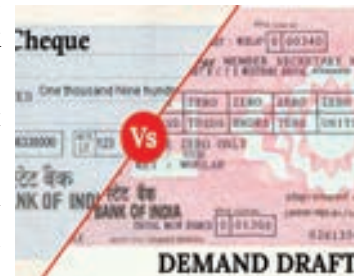
Sl.No.	Name in the Country	Name in Currency
1	India	
2	Germany	
3	Japan	
4	Singapore	
5	Malaysia	
6	Saudi Arabia	
7	USA	
8	UK	
9	Sri Lanka	
10	Pakistan	



## Reserve Bank of India

### Credit Money or Bank Money

Emergence of credit money took place almost side by side with that of paper money. People keep a part of their cash as deposits with banks, which they can withdraw at their convenience through cheques. The cheque (known as credit money or bank money), itself, is not money, but it performs the same as functions of money.



### Near Money

The final stage in the evolution of money has been the use of bills of exchange, treasury bills, bonds, debentures, savings certificate etc.

## Recent forms of Money

### Plastic Money

The latest type of money is plastic money in the form of Credit cards and Debit cards. They aim for cashless transactions.



## E-Money

Electronic Money is money which exists in banking computer systems and is available for transactions through electronic system.

## Online Banking (Net Banking)

Online Banking, also known as internet banking is an electronic payment system that enables customers of a bank or other financial institutions to conduct a range of financial transactions through website.



## E-Banking

Electronic banking, also known as National Electronic Funds Transfer (NEFT), is simply the use of electronic means to transfer funds directly from one account to another rather than by cheque or cash.



### ACTIVITY: 2

- Prepare the duplicate model of different stages of Money, like Commodity money, Metal money, Plastic Money, etc.(including Barter System)
- Give the models to the each group students.
- Teacher and students discuss about the different stages of money

## Value of Money

Value of money is meant the purchasing power of money over goods and services in a country. Thus it is related to the price level of goods and services. But the relation between the value of money and price level is an inverse one.

## Symbol of Rupee



The Indian Rupee symbol designed by Mr. Udaya Kumar, Villupuram Dist Tamil



Nadu. It was approved by the Government of India on 15 July 2010.

The value of money is of two types

1. Internal value of money
2. External value of money

The Internal value of money refers to the purchasing power of money over domestic goods and services. The External value of money refers to the purchasing power of money over foreign goods and services.

### ACTIVITY: 3

- Students to know about the value of money,
- Set up your classroom like a shop or market
- Students are asked to purchase some commodities from the shop
- Do the market activities
- Teacher and students together discuss the value of money

## Nature of Money

There has been lot of controversy and confusion over the meaning and nature of money. Scitovsky states that "Money is a difficult concept to define, partly because it fulfils not one but three functions, each of them providing a criterion of moneyness those of a unit of account, a medium of exchange, and a store of value". Sir John Hicks, says that "Money is defined by its functions, anything is money which is used as money, "Money is what money does".

These are the functional definitions of money because they define money in terms of the functions it performs. Some economists define money in legal terms saying that “anything which state declares as money is money”. Such money possesses general acceptability and has the legal power to discharge debts. But people may not accept legal money by refusing to sell goods and services against the payments of legal tender money. On the other hand, they may accept some other things as money which are not legally defined as money in discharge of debts. This may circulate freely.

## Functions of Money

Functions of money are classified into Primary or Main functions, Secondary functions and Contingent functions.

### Primary or main functions

The important functions of money performed in every economy are classified under main functions:-

#### i) Medium of exchange or means of payment

Money is used to buy the goods and services.

#### ii) Measure of value

The values of all the goods and services are expressed in terms of money. It is easier to determine the rate of exchange between various type of goods and services.

### Secondary functions

The three important secondary functions are

#### i) Standard of deferred payment

Money helps the future payments too. A borrower borrowing money today places himself under an obligation to pay a specified sum of money on some specified future date.

#### ii) Store of value or store of purchasing power

Savings were discouraged under barter system as some commodities are perishable. The introduction of money has helped to save it for future as it is not perishable.

#### iii) Transfer of value or transfer of purchasing power

Money makes the exchange of goods to distant places as well as abroad possible. It was therefore felt necessary to transfer purchasing power from one place to another.

### Contingent functions

1. Basis of credit
2. Increase productivity of capital
3. Measurement and Distribution of National Income

#### Hots

If there is no invention of money - imagine.



#### Inflation and Deflation

Inflation refers to the prices are rising, the value of money will fall.

Deflation refers to the prices are falling, the value of money will rise.

## Savings in Banks and Investments

### Savings

Savings are defined as the part of consumer's disposable income which is not used for current consumption, rather kept aside for future use. There are several ways through which a person can save money. The banking facilitates saving money through various forms of accounts.







# SAVINGS



## 1. Student Savings Account

Some banks offer saving accounts specifically for young people enrolled in high schools or colleges. The main features of these account is to maintain zero Balance.

## 2. Savings Deposits

Savings deposits are opened by customers to save the part of their current income. The customers can withdraw their money from their accounts when they require it. The bank also gives a small amount of interest to the money in the saving deposits.

## 3. Current Account Deposit

Current accounts are generally opened by business firms, traders and public authorities. The current accounts help in frequent banking transactions as they are repayable on demand.

## 4. Fixed Deposits

Fixed deposits accounts are meant for investors who want their principle to be safe and yield them fixed yields. The fixed deposits are also called as Term deposit as, normally, they are fixed for specified period.

## Benefits of Savings

- You will be financially independent sooner.
- You would not have to worry any unforeseen expenses.
- In future, you will have financial backup in place if you lose your job.
- You will be prepared if your circumstances change.

- You will be more comfortable in retirement.
- Save today for better tomorrow

## Intensity to save among the students

- Teach them about taxes and accounting.
- Involve them in grown-up money decisions.
- Encourage them to apply for scholarship.
- Help them budget and apply for student loans.
- Teach them personal savings.

Encourage them to open a student Sanchayeka Scheme.

## Investments

The process of investing something is known as an investment. It could be anything, i.e. money, time efforts or other resources that you exchange to earn returns in future.



Investment can be made in different investment vehicles like,

1. Stock
2. Bonds
3. Mutual funds
4. Insurance
5. Annuities
6. Deposit account or any other securities or assets

An investment always comes with risks of losing money, but it is also true that you can reap more money with the same investment vehicle. It has a productive nature that helps in the economic growth of the country.



## Comparison of Savings and Investments

Basis for comparison	Savings	Investments
Meaning	Savings represent that part of the person's income which is not used for consumption	Investment refers to the process of investing funds in capital asset, with a view to generate returns
Purpose	Savings are made to fulfill short term or urgent requirements	Investment is made to provide returns and help in capital formation
Risk	Low or negligible	Very high
Returns	No or Less	Comparatively high
Liquidity	Highly liquid	Less liquid

## Black Money

Black Money is a form of unaccountable Money. Black Money is mostly created by business people. They do not show actual income earned in their economic activities. They show only a part of income earned for the purpose of Tax evasion.



**Black Money**

The black money is accumulated by the criminals, smugglers, hoarders, tax-evaders and other anti-social elements of the society. In India, black money is funds earned in the black market, on which income and other taxes have not been paid. The total amount of black money deposited in foreign banks by Indians is unknown. The root cause for the increasing rate of black money in the country is the lack of strict punishments for the offenders.

### Effects of Black Money on economy

1. Dual economy (Dual economy in terms of developed sector on one side under developed sector on the other side.)
2. Tax evasion, thereby loss of revenue to government.
3. Undermining equity
4. Widening gap between the rich and poor
5. Lavish consumption spending

6. Distortion of production pattern
7. Distribution of scarce resource
8. Effects on production.



### Demonetization

In India, On 8-November-2016, the Government of India announced demonetization of all ₹500 and ₹1000 bank notes against Black Money.

### Recent steps against Black Money

- 1 Under pressure from India and other countries, Switzerland has made key changes in its local laws governing assets foreign allegedly stashed in Swiss Banks.
- 2 Special Investigation Team appointed by government on the directions of Supreme Court on black money.
- 3 Demonetization

### Some Legislative Framework in India against Black Money

- 1 Prevention of money laundering act 2002
- 2 Lokpal and Lokayukta act
3. Prevention of corruption act- 1988
4. The undisclosed foreign Income and Asset Bill (Imposition of Tax) 2015
5. Benami transactions prohibition act 1988 amended in 2016
6. The Real Estate (Regulation and Development) Act, 2016

## Recap

- The word Money is derived from Roman word “Moneta Juno”.
- Barter System - Men exchanged goods for goods without the use of Money.
- Some of the major stages through which money has evolved are Commodity Money, Metallic Money, Paper Money, Credit Money, Near Money and recent forms of Money.
- Value of money is meant the purchasing power of money over goods and services in a country.
- Money is defined by its functions: anything is money which is used as money: “Money is what money does”.
- Savings are defined as the part of consumer’s disposable income which is not used for current consumption, rather kept aside for future use.
- Black Money is money earned through any illegal activity controlled by country regulations.

## GLOSSARY

Coincidence	accident	தற்செயல்
Demonitization	to officially stop using particular	பண மதிப்பு குறைப்பு
Dual Economy	an economic system that consists of two very different parts	இணை பொருளாதாரம்
Purchasing Power	the value of money considered as the amount of goods it will buy	வாங்கும் சக்தி
Unanimity	the state of being unanimous	ஒரு மனதாக முடிவெடுத்தல்
Tax Evasion	ways of illegally paying less tax	வரி ஏய்ப்பு
Deterioration	the process of becoming progressively worse	மோசம் அடைதல்



## Evaluation

### I Choose the correct answer

- Which metals were used for metallic money?
  - gold
  - silver
  - bronze
  - all the above
- Who designed the symbol (₹) of Indian rupee?
  - Udayakumar
  - Amartya Sen
  - Abijith Banerjee
  - None of these



- The value of money is
  - Internal value of money
  - External value of money
  - Both a & b
  - None of these
- Which is the Bank Money?
  - Cheque
  - Draft
  - Credit and Debit cards
  - All the above
- Pick out the incorrect one: Investment can be made in different vehicle.
  - Stock
  - Bonds
  - Mutual fund
  - Pay tax



6. Among the following who are responsible for Black Money?
- a) Tax evaders
  - b) Hoarders
  - c) Smugglers
  - d) All of the above

## II Fill in the blanks

1. Online Banking is also known as \_\_\_\_\_.
2. \_\_\_\_\_ is what money does.
3. Electronic banking is also known as \_\_\_\_\_.
4. Credit cards and Debit cards are \_\_\_\_\_ Money.
5. In the \_\_\_\_\_ year Reserve Bank of India was established.

## III Match the following

1.	Barter system	tax evaders
2.	Reserve Bank act	Electronic Money
3.	E- Money	Consumer's disposable income
4.	Savings	exchanged goods for goods
5.	Black money	1935

## IV Write the one word answer

1. The word Money is derived from?
2. Who Prints and issues paper currencies in India?

## V Choose the correct statement

1. Barter system had many deficiency like
  - I. Lack of double coincidence of wants
  - II. No difficulties of storing wealth
  - III. Common measure of value
  - IV. Indivisibility of commodities
  - a) I and II is correct
  - b) I and IV is correct
  - c) I, III and IV is correct
  - d) All are correct

## VI Find out the odd one

1. Recent forms of money transactions are
  - a) Credit card
  - b) Barter system
  - c) Debit card
  - d) Online banking
2. Effects of black money on economy is
  - a) Dual economy
  - b) Undermining equity
  - c) No effects on production
  - d) lavish consumption spending

## VII Write short answer

1. What is the Barter System?
2. What are the recent forms of money?
3. Short note on E-Banking and E-Money.
4. What are the essential of Money in your life?
5. What is the Value of Money?
6. What is Savings and Investment?
7. What is meant by Black Money?
8. What are the effects of black money on economy?

## VIII Write Brief answer

1. What are the disadvantages of barter system?
2. Write about the evolution of Money.
3. What are the functions of Money? and explain it.
4. Explain the types of bank Deposits.
5. What are the difference between savings and investment?
6. What are the effects of black money on economy?

## IX Project and Activity

1. Students are asked to prepare a chart containing dummy images of new and old currencies in India and also from other countries.
2. Go to your nearest Post Office and know about the savings scheme in India and teachers and students are discuss about the savings schemes.



## X Life skills

1. Students to know about the value of money, Set up your classroom like a shop or market.
2. Students are asked to purchase some commodities from the shop, Do the market activities.
3. Teacher and students together discuss the value of money.



## REFERENCE BOOKS

1. *Jhingan - Monetary Economics*
2. *Jagdish Handa - Monetary economics*
3. *Wynne A. H. Godley - Monetary economics*
4. *Mervyn K. Lewis - Monetary Economics*



## INTERNET RESOURCES

- [www.investopedia.com](http://www.investopedia.com)
- [www.vikaspedia.com](http://www.vikaspedia.com)
- [www.coinsindia.com](http://www.coinsindia.com)



## ICT CORNER

### Money, Savings and Investments

#### Steps

- Open the Browser and type the URL given below (or) Scan the QR Code.
- Go to Currency converter
- Go to drop down menu, select any country name (Ex. India-America)

#### Website URL:

<https://fx-rate.net/>

