

For XAT , CMAT , SNAP , MAT , IIFT Exam

MONEY

- Monetary Economics is a branch of economics that provides a framework for analyzing money and its functions as a medium of exchange, store of value and unit of account.
- Money is anything that is generally accepted as payment for goods and services and repayment of debts and that serves as a medium of exchange.

Evolution of Money

Barter System

- The introduction of money as a medium of exchange was one of the greatest inventions of mankind. Before money was invented, exchange took place by Barter, that is, commodities and services were directly exchanged for other commodities and services.
- Goods like skins, salt, rice, wheat, utensils, weapons, etc. were commonly used as money. Such an exchange of goods for goods was known as “Barter System”.
- Barter system was introduced by Mesopotamia tribes

Metallic Standard

- Under the metallic standard, some kind of metal with gold or silver is used to determine the standard value of the money and currency. Their face value is equal to their intrinsic metal value.

Gold Standard

- Gold Standard is a system in which the value of the monetary unit or the standard currency is directly linked with gold. The purchasing power of a unit of money is maintained equal to the value of a fixed weight of gold.

Silver Standard

- The silver standard is a monetary system in which the standard economic unit of account is a fixed weight of silver

Paper Currency Standard

- The paper currency standard refers to the monetary system in which the paper currency notes issued by the Treasury or the Central Bank or both circulate as unlimited legal tender. Its value is determined independent of the value of gold or any other commodity.
- The quantity of money in circulation is controlled by the monetary authority to maintain price stability.

Plastic Money

- The latest type of money is plastic money. Plastic money is one of the most evolved forms of financial products.
- Plastic money can come in many different forms such as Cash cards, Credit cards, Debit cards, Pre-paid Cash cards, Store cards, Forex cards and Smart cards

Crypto Currency

- A digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a Central Bank. Example: Bitcoin

Important concepts

Barren Money

- Money which is not earning any interest
- Money which is not invested anywhere
- Money which is kept in a safe deposit locker

Fiat Money

- Fiat money is one that is declared legal tender. This includes any form of currency in circulation such as paper money or coins. Fiat money is backed by a country's government instead of a physical commodity.

Supply of Money

- Money supply means the total amount of money in an economy. It refers to the amount of money which is in circulation in an economy at any given time.
- Money supply plays a crucial role in the determination of price level and interest rates
- In India, currency notes are issued by the Reserve Bank of India (RBI) and coins are issued by the Ministry of Finance, Government of India (GOI).
- Determinants of Money Supply
 1. Currency Deposit Ratio (CDR)
 2. Reserve deposit Ratio (RDR)
 3. Cash Reserve Ratio (CRR)
 4. Statutory Liquidity Ratio (SLR)