

## MODULE - 11

Money, Banking and  
Government Budget



Notes

## Money and Banking

For example a Kg. of rice and a liter of cooking oil cannot be added together as these are given in different units. But they can be added together if expressed in monetary units. If a Kg. of rice is worth ₹25 and a liter of cooking oil is worth ₹75, the combined value of rice and oil comes out to be ₹100.

### 28.4 MEASURES OF MONEY SUPPLY IN INDIA

Money supply refers to the total quantity of money held by public in various forms at any point of time in an economy. The main components of money supply are currency held by the public and net-demand deposits held by the commercial banks. The money supply in Indian economy is generally measured in following forms:

- (i)  $M_1$  = Currency (notes and coins) with the public + Demand deposits + other deposits held with the Reserve Bank of India.
- (ii)  $M_2$  =  $M_1$  + Post Office saving deposits.
- (iii)  $M_3$  =  $M_1$  + Time deposits of all commercial banks and co-operative banks (excluding interbank time deposits).
- (iv)  $M_4$  =  $M_3$  + Total deposits with the Post Office Saving Organisation (excluding National Saving Certificate).

Of all the concepts of money supply stated above,  $M_1$  is referred to as *narrow measure* and  $M_3$  the *broader measure* of money supply.  $M_1$  is the most important measure of money supply.  $M_1$  is most liquid whereas  $M_4$  is least liquid.

### 28.5 HIGH POWERED MONEY (H)

The High Powered Money refers to the currency held by the public (C), cash reserves of banks (R) and other deposits of the R.B.I. High Powered Money is produced by the R.B.I. and the Government of India and held by the public and the banks.



### INTEXT QUESTIONS 28.2

1. Which of the following statements are true and which are false?
  - (i)  $M_1$  is a narrow measure and  $M_3$  is a broader measure of money supply.
  - (ii) Currency notes and coins are not an important component of money supply.
  - (iii) Supply of money is measured over a period of time.
  - (iv) High powered money consists of cash with public, reserves with banks and other deposits with R.B.I.