

# II BA ECONOMICS

## MONETARY ECONOMICS

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### Unit -1

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# Title 1: Definition of money

- **Francis Walker**
- **“Money is What money does”**
  
- **Crowther**
- **“ Anything which is generally acceptable as a means of exchange and that at the same time acts as a measure and store of value”**

## Title 2 :Difficulties of Barter Exchange system

- Direct exchange of one good for some quantity of another good.
- 1. Lack of double coincidence of wants
- 2. Lack of common measure of value
- 3. indivisibility of certain goods
- 4. difficulty in storing value
- 5. difficulty in making deferred payment

# Title 3 : Functions of Money

## Primary functions

- i. **Medium of exchange** : acts as intermediary. removes the need of double coincidence of wants. Possibility of multiple transactions. Affords freedom of choice. Facilitates trade.
  
- ii. **Measure of value** : act unit of value – common denominator determine the rate of exchange between goods and services – facilitating accounting

# Functions of Money

## 2. Secondary Functions

iii. standard deferred payment: postponed payment- all lending and borrowing means- links present value with those of future – helps capital formation

iv. Store of value : money become a bridge from present to future – meet unforeseen expenses –pay debts- all type of security investment

v. Transfer of Value : money facilitates transfer of value between persons and places

### 3. Contingencies function

vi. Money is a most liquid assets

vii. Basis of credit system

viii. Measurement and distribution of national income

# Title 4 : Evolution of Money

- money has passed through different stages with progress along with the human civilisation at different times and places.

- i. **Commodity money** : money in the beginning of human civilisation. Stones, cattles, grains etc.,
- i. **Mettallic Money** : high precious metals Gold and Silver , low precious metals iron copper and nickel

iii. Paper money : money in the form of paper – backed by gold and was convertible on demand into gold. Now it become inconvertible. Limited and unlimited legal tender.

*convertible paper money* : the paper money is backed by gold coins or bullions

*Inconvertible money* – not backed by gold. Fiduciary money

Legal Tender money : is that which the state and the people accept as a means of payment and discharge of debts.

Limited legal tender : payment can be made legally upto certain limit.

Unlimited legal tender: payment can be made legally in unlimited quantities.



iv . Credit money : Bank money. Bank cheque and draft.

v. Near money : they are close substitutes for money and liquid assets. Bank draft, cheque, bond, stocks, etc.,

# Title 5    Role of Money in Capitalist Economy

A capitalist economy is one in which each individual as a consumer , producer and a resource owner is engaged in economic activity with large measure of economic freedom.

Right of private property

Profit motive

Freedom of enterprise

Consumer's sovereignty

# Money in capitalistic economy

## a. Role of price mechanism

most significant role of money . Functions through prices of goods and services. Price determines the production of innumerable goods and services

central problem of what, how and for whom to produce are solved by price mechanism ..

For consumer equalising MU with price

For producer buying, selling of inputs and output and calculation of cost and profit.

## **B. Basis of Capitalist Production**

Basis for capitalist production. Facilitating purchase of inputs , increasing specialisation, division of labour . Money helps in growth in research in agri. Industry and tertiary sector. Circular flow of goods and services from these sectors.

## **C. Basis of Credit**

Entire system of production is based on credit . Credit issued for facilitating trade, commerce, agriculture transport. Interest rate are also in the form of money.

## **d. Means of capital formation**

growth of economy depends upon capital accumulation. Saving, deposit, investment to bank and financial institutions becomes capital assets.

### e. Link between Present and Future

establishes a link between present and future through freedom of enterprise freedom of consumption and saving under capitalism. Saving lead to production of capital assets and contribute economic growth.

### f. Lead to Business cycle

Excess of money supply lead to inflation and further plunges into recession.

money plays a crucial role and acts as a king in the capitalistic economy.

# Title 6: Role of money in socialistic Economy

- Planned economy
- Planning authority performs the market functions.
- Consumer choice is limited
- No private property
- Cost, prices profit calculated by planning authority
- Determining allocation of resources
- Taxation
- Capital accumulation
- Foreign trade
  
- Money is limited role. Less important .