II B.A Economics
MONETARY ECONOMICS
Unit-II

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Title 1 : Monetary standard

- Monetary standard refers to the overall set of laws and practices which control the quality and quantity of a money in a country.
- The monetary standard of a nation is its standard monetary unit.

Title 2 : Types of Monetary Standard

- Mettalic standard : refers to a monetary system in which the value of monetary unit is expressed in terms of fixed qty of metal.

- If the monetary system is related to only one metal, monomettalism.
- If the system is made of two metals, bimettalism

Title 3 –Types of Gold Standard

- The Gold standard is a monomettalic standard in which the value of the monetary unit is fixed in terms of a specified weight and purity.
- Types of Gold Standard
  - Gold Currency Standard
  - Gold Bullion standard
  - Gold Exchange standard
  - Gold Reserve standard
  - Gold Parity standard

Title 3.1. Gold currency standard

- Prevailed prior to 1914 in UK and USA
- Features
- Also known as gold coin standard
- Circulation of paper and other types of money
- Convertible paper currency
- Coin is unlimited legal tender
- Purchase and sale of gold by govt
- Gold could be minted for other purposes
- Free export and import of gold

- <u>Merits</u>
- Simplicity
- Automatic working
- Stability in internal price level
- Stability in foreign exchange rate

- <u>Demerits</u>
- Waste of gold
- Inelastic
- Automatic working not possible
- gold not essential for stability
- Deflation oriented

Title 3.2. Gold Bullion standard

- Revised version of gold currency standard
- Adopted by european countries after Ist world war, India 1926.
- <u>Features</u>
- No circulation of Gold Coins
- No free coinage of gold
- Sale and purchase of gold at fixed price
- Free export and import of gold

- Advantage
- Economical in use of gold
- Elasticity
- Gold can be used for public interest
- Stability of foreign reserves
- Automatic working
- Simplicity
- DISADVANTAGE
- Break down at the time of crisis
- Necessisity of govt.intervention
- Uneconomical
- Less public confidence

Title 3.3 Gold Exchange Standard

- Existed in the beginning of 20th century mainly in India
- “ the govt. takes no responsibility for converting internal currency into gold for meeting domestic requirements”
- “ on the contrary the govt. undertakes to convert local currency into the currency of another country based on gold standard for making foreign payments

- Features
- a. token money and inconvertible paper currency
- b. indirect link with gold
- c. Absence of free gold market
- d. gold available only for making foreign payment

- Merits
- a. Economical
- b. Elasticity of money supply
- c. stability in exchange rate
- d. advantage to the govt.

Title 3.4. Gold Reserve Standard

- Existed in western eurobe 1936 to 1939.
- Objective is to ensure stability in exchange rate.
- System end after the second world war.
- **Features**
- No Link with Gold
- Restriction on import and export
- Exchange equalization fund
- Secracy of reserves

Title 3.5. Gold Parity Standard

- Modern version of gold standard
- Came into exist in the establishment of IMF
- Every member country define the value of currency in terms of Gold
- **Features**
- Local currency not linked with gold
- Definition of money interms of gold
- Every country follow independent monetary policy
- Provision of loan

Title 3.6 Paper Currency Standard

- Paper currency standard consist of paper money which is unlimited legal tender and token coins of cheap metals
- Paper money not convertible into coins of precious metals- inconvertible paper money.
- It is a legal tender money.

- Merits
- Economical
- Elastic
- Price stability
- free from cyclical effects
- Equlibrium in exchange rate
- Portable
- Easy to count and store

- <u>Demerits</u>
- Inflationary bias
- Lack of confidence
- Lack of durability
- Uncertainity
- Waste of resources

Principles of Note Issue

i. **Simple deposit system: the monetary authority is required keep hundred percent of the bullion (by gold of silver) for every note issue.**

ii. **Fixed fiduciary system : A fixed amount of notes is issued by the central bank against the reserves of government securites. The central bank is required to keep hundred percent gold reserves beyond the fiduciary limit.**

iii. **Maximum fiduciary system :there is a maximum limit upto which the central bank is authorised to issue notes without any gold reserves. But there has to be full backing of gold reserves beyond this limit.**

- iv. Proportional reserve system :
  - A certain percentage of the total notes issued by the central bank has to be in gold reserves and the remaining in the form of government securities.

v. Minimum reserve system : The central bank is authorised to issue notes up to any extent but it keep a statutory minimum reserve of gold and foreign securities.