

Hello everyone, in this session I will deal

with the unit 1 money and money supply.

In this module you will learn about the components of money.

There are basically three components of money- metallic money,

Paper money and credit money. First, let's see what is

metallic money. Money which is made up of some metal is called

metallic money. It refers to coins which are made of gold,

Silver, Copper, Nickel, etc. Metallic money is further

classified under 2 sub heads.

First one is standard money which is also known as full

bodied money or principal money.

Standard money is a coin which is made up of precious metal.

For example, coins which are made up of gold or silver is

known as standard money. Standard coin is one whose

face value or exchange value is equal to its intrinsic or

metallic value. If a standard coin is melted and the metallic

content is sold in the market then the exchange value of the

metal would be equal to its face value. Second type of metallic

money is token money which is also known as subsidiary money.

Coins which are made up of cheaper metals are known as

token money. For example, the coins which are made up of cheap

metals such as nickel, copper is known as token money. All the coins which are used today are known as token money.

In case of token money, the face value of a token coin is higher than its intrinsic value. Second component of money is paper money.

Paper money consist of currency notes which are issued by the central Bank of a country. All countries use paper money now-a-days Because it is economical, convenient and its supply can be easily adjusted to suit the needs of the economy.

Paper money is of three types.

First one is representative paper money- when paper currency notes issued by the central bank of a country are fully backed up by bullion reserves, it is called representative paper money. In other words, this type of paper money merely represents a certain quantity of gold or silver kept in reserve by the Monetary Authority. However, the value of such reserves is equivalent to the value of paper notes issued by the central bank. Representative paper money is freely convertible on demand into standard money of the country. Second type of paper money is convertible paper money, which is also known as fiduciary money. Paper money which is partly backed up by bullion reserves and partly by the government securities, is

called convertible paper money. It is freely

convertible on demand into standard money of the country.

The value of bullion reserves maintained by the Monetary

Authority is less than the value of the notes issued by the

central bank. Third type of paper money is inconvertible paper

money which is also known as fiat money. When paper money is not convertible into gold or

standard money, it is called as inconvertible paper money. It

is backed up only by the sanction of the government. In

short, it is accepted only because it is declared to be

lawful by the government.

The third component of money is credit or bank money.

Another type of money in the modern world is credit money or

bank money. For example, cheques, drafts, promissory notes, debit

cards, credit cards, etc. Large transactions over the entire

country as well as outside the country are credit transactions.

In fact, economic transactions have become easier

and smooth with the use of credit money or bank money, so

that paper currency running to lakhs and crores of rupees for

transaction purposes need not be used. Credit money is very

convenient form of money for large transactions as it

eliminates risk and is safe.

These are reference for this topic.

Thank you.