Money and Banking

Barter system => goods for goods, no money.

Drawbacks:

1. Double coincidence of wants
2. No common unit of account
3. No store of value
4. No standard of deferred payment

Functions of Money.

Primary:

* Medium of exchange
* Unit of account

Secondary:

* Store of value
* Standard of deferred payment

Money Supply: M1 to M4

$M1$ = Currency w/ public + Demand deposits
+ Other deposits with RBI (Narrow Money)

$M2$ = $M1$ + PO savings deposits
$M3$ = $M1$ + Time deposits with banks (Broad Money)
$M4$ = $M3$ + Other PO deposits (excl. NSC)

Liquidity: $M1 > M2 > M3 > M4$.
Magnitude: $M1 < M2 < M3 < M4$.

$\boxed{H = \text{Curr w/ public} + \text{Bank reserves w/ RBI} + \text{Other RBI}}$

Money Multiplier

$m = (1 + c) / (c + r)$ $M(s) = m \times H$
simple case ($c=0$): $m = 1 / r$

Commercial Banks

Primary functions:

* Accept deposits (demand, saving, fixed)
* Advance loans / overdrafts

Secondary:

* Agency: cheque clearing, remittance
* Utility: lockers, forex, cards

Credit creation through fractional reserve banking: deposits become reserves, loans become new deposits $\Rightarrow$ $M(s)$ expands.

RBI Monetary Policy

Quantitative: Bank rate, Repo, Reverse Repo, CRR, SLR, OMO

Qualitative: Margins, Moral suasion, Selective credit controls