Evolution of Money

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Money is one of the greatest inventions of the modern world.

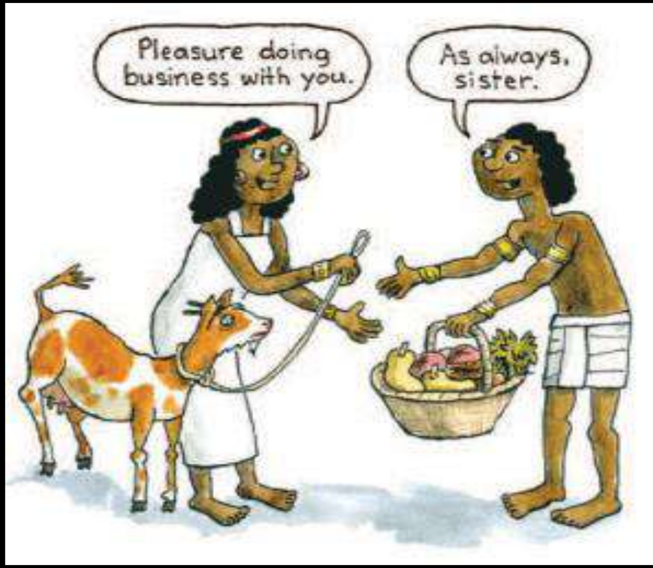
(मुद्रा आधुनिक समाज का सबसे बड़ा आविष्कार है)

Money is any thing which is used as a medium of exchange

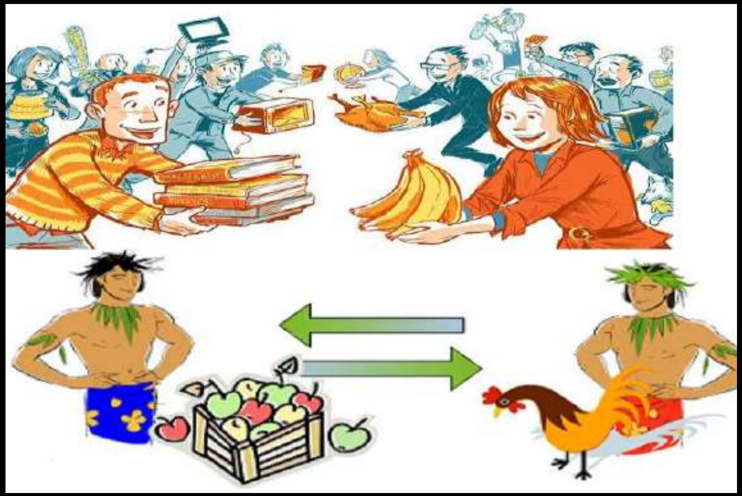
it can be any thing a shell, a metal coin, skin of animal, grain or a piece of paper

accepted as a medium of economic exchange. It is the medium in which prices and values are expressed; as currency, it circulates from person to person and country to country, thus facilitating trade, and it is the principal measure of wealth.

Well, there was a time when there was no such thing as money.



Barter economy (वस्तु विनिमय प्रणाली): C-C Economy



People exchanged goods & services for other goods & services in return

It is the oldest form of commerce.

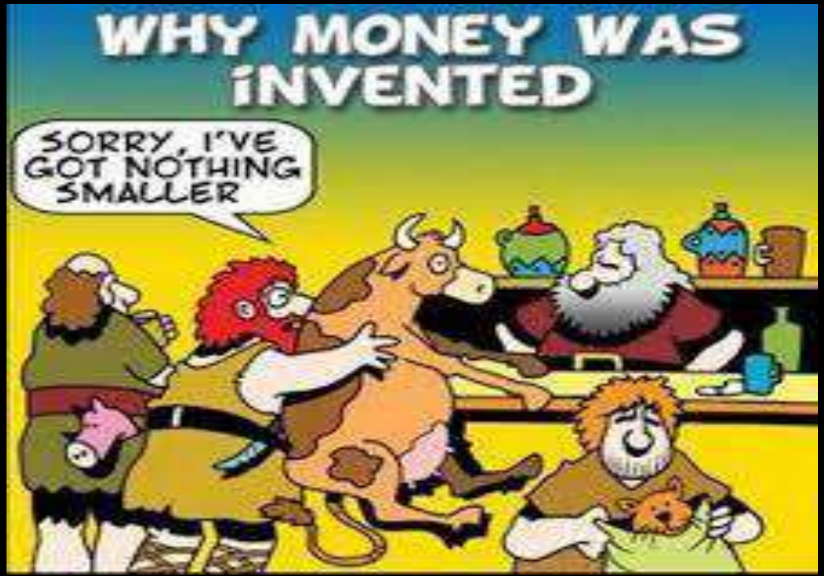
The barter system had many drawbacks

- *lack of double coincidence of wants,*

(दोहरा संयोग का अभाव) *the problem of the barter system is that there is buying and selling should be done simultaneously*

Reciprocal demand /problem of double coincidence

e.g. a person with excess of RICE and in need of SUGAR may not be able to find a supplier of SUGAR who is in need of RICE



- *lack of a common unit of value,*

(एक मानक इकाई का अभाव)

The second problem comes
In fair exchanges due lack of a common unit of value

How does one calculate, for example, a fair exchange rate of eggs for a television set?

- Difficulty of storage of value and transfer of value

barter system became a difficult medium of exchange and this led to the origin of Money

MONEY

Money is any thing which is used as a medium of exchange.

Different Stages Of Evolution Of Money

1. Commodity Money (वस्तु मुद्रा)
2. Metallic Money (धातु मुद्रा)
3. Paper Money (पत्र मुद्रा)
4. Credit Money (साख मुद्रा)
5. Electronic Money

Commodity money (वस्तु मुद्रा)

When different commodities were used as medium of exchange "

जिसका मूल्य उस वस्तु से आता है। जिनका मूल्य या उपयोग स्वयं में (आंतरिक मूल्य) के साथ-साथ सामान खरीदने में होता है।

Hunting society, skin of wild animals were used as money

Agriculture society used grain and foods

Commodity money had different problem like:

1. Storing Problem
2. Durability problem
3. Transportation /Portability problem
4. Divisibility problem
5. No uniformity in quality

METALLIC MONEY (धातु मुद्रा)

ऐसी मुद्रा जो किसी धातु की बनी होती है, उसे धातु मुद्रा कहते हैं। मुद्रा के रुप में अब तक सामान्यत: सोना, चाँदी, गिलट, काँसा, ताँबा आदि धातुओं का ही प्रयोग किया गया है।

The next step in the evolution was the discovery of precious metals like Gold, Silver, Copper. "Initially, the pieces of metals, such as gold, silver, copper, and aluminum, served the purpose of money. However, in later years, these pieces took the form of coins.

Metallic money can be:

FULL BODIED☹ STANDARD MONEY

मानक मुद्रा

Whose Face Value (अंकित मूल्य)is equal to the intrinsic value (value of metal contained in it) वास्तविक मूल्य

TOKEN MONEY☹ प्रतीक मुद्रा

- Its Face Value is Higher than Intrinsic Value (Value of Metal)

Problems with Metallic money

- Not easily portable
- Not safe to carry from place to place.
- Difficult to carry out large transactions
- Intrinsic value of coins was greater than face value.
- Dishonesty

Paper Money (पत्र /कागज मुद्रा)

Paper money was first introduced in china in 807 AD

Till 1971, the paper notes were backed by silver or gold work as (commodity money backed with the values of gold or silver)

Though initially backed by precious metals, most paper money today is fiat money.

The government backs fiat money. Fiat money does not hold any intrinsic value and is instead valued based on the stability of the government.

European trading companies brought paper currency in India around the 18th century

in the beginning Bank of Bengal (1784-91) issued the bank notes

first note issued by the Bank of Bengal was Two Hundred and Fifty Rupees note, September 3, 1812.

The Paper Currency Act of 1861 gave the Government the monopoly of note issued.

In 1861, the Government of India introduced its first paper money: ₹10 note

Government of India continued to issue currency notes till the Reserve Bank of India was established on 1st April, 1935.

In 1938, the RBI issued its first note (5 rupee note).
It came with a portrait of King George VI.
This was followed by Rs 10 in February,
Rs 100 in March and Rs 1,000 and Rs 10,000 in June 1938.

So, the first banknote printed by the Independent India was a 1 rupee note in 1949 with the image of the Lion Capital of Ashoka

Bank notes with picture of Mahatma Gandhi was first printed in 1996.

Paper Money can be:

1. Representative Paper Money.
   (प्रतिनिधि कागज मुद्रा)
2. Convertible Paper Money
3. Fait Paper Money.

Representative Paper Money.

It is that money which is fully backed by equivalent metallic reserves. printed on paper, that represents something of value, but has little or no value of its own (intrinsic value).

Representative Money

Is 'backed' by a commodity, so is readily exchangeable and must be accepted by banks

Convertible Paper Money:

Which is convertible into standard coins made of gold or silver on demand

The government does not maintain a hundred per cent reserves against such money.

A fractional reserve of full-bodied money is kept as a guarantee for repayment.. The convertible paper money is issued against gold, silver and securities.

Inconvertible Paper Money/
Fait Paper Money
Fait : legal binding command
by the command of the Govt
(सरकार के आदेश या नियंत्रण के द्वारा).

It is accepted because it is declared legal tender by the issuing authority and has general acceptance as a medium of exchange.
The intrinsic value of Fait money is Nil. Which is not convertible into Gold or Silver on demand.

Fiat Money

Only obtains value from Government and peoples trust in it

Bank Money

Bank money refers to money held in the form of demand deposits with commercial banks.

.

Banks are legally obligated to return the funds to the owner of a demand deposit account immediately upon demand (i.e. at call).

Different instruments offered by the Banks.)

Cheques, Drafts, ATMs etc.

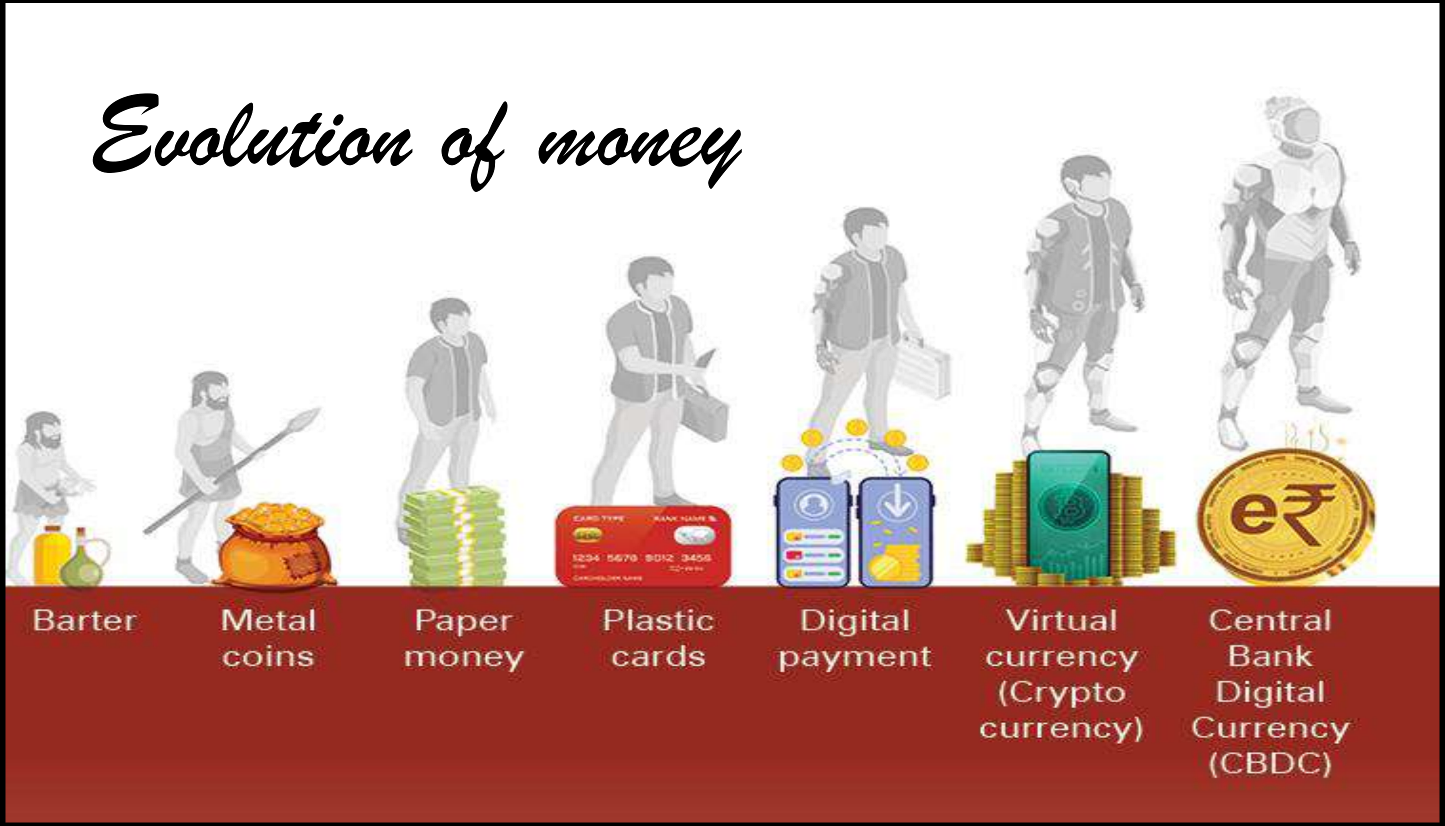
online banking.

Convenient, Safe and easily convertible into cash..

Cryptocurrency:

A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit

cryptocurrencies are decentralized networks based on blockchain technology



Characteristics of money

- **Acceptability.**

It must be universally acceptable as payments for goods and services .It is the very essence of money.

- **Durability.**

It must not be easily worn out. it needs to last. As money is passed from hand to hand and is kept in reserve, it must not easily deteriorate, either in itself or as a result of wear and tear. "It must not evaporate like alcohol,, nor decay like wood, nor rust like iron.

- *Portability.*

It must be convenient to carry It should be easily transported from one place to another, even in bulk.

- *Uniformity/Homogeneity/fungibility* –

All similar notes must look alike .

- *Divisibility.*

It must be possible to divide money into smaller units if necessary.

- **Storability:**

–Money should be storable without any fall in value. The value of money should not depreciate with the passage of time. This quality of money will encourage savings and investment.

- *Hard to counterfeit* - i.e. it can't easily be faked or copied

FUNCTIONS OF MONEY(मुद्रा के कार्य):

Money derives its value by virtue of its functions

Primary functions of money

- Medium on exchange
- Money as a unit of account

Secondary functions of money

- Money as a store of value
- Standard of deferred payment
- Transfer of value

Money as a medium of Exchange (विनिमय का माध्यम)

- Most important job of money is to serve as a medium of exchange between the buyer and seller
- Used to pay for goods and services
- Overcame double coincidence of barter system
- Introduced time efficiency of exchanging goods and services
- Encouraged division of labor.
- People are now specializing due to easier payment of services rendered..

2. Money as a unit of account/ Measure of value(मूल्य का मापदंड):

Value of different goods and services can be measured in terms of money (i.e. price)

Without money, we would have to measure the value of goods and services in terms of other goods and service

.3. Money as a standard of deferred payments

(स्थगित भुगतान का एक मानक) ऋण की सुविधा मिलती है

Future payments can be easily determined with the help of money. One can borrow loans from banks and other financial institutions in form of money and repayment can be made as well in form of money

Money is useful in the
purchasing goods on credit as
it is easy to borrow-and lend

4. Money as a store of value

(मूल्य का संचय)

Does not deteriorate and stores
value

Transfer of value (मूल्य का हस्तांतरण)

Through money, value can be easily and quickly transferred from one place to another because money is acceptable everywhere and to all.

It helps to **transfer** the **value** of the assets, properties and also the income of the person to another person..

Near Money(निकट मुद्रा).

Financial assets which are near to money just like money not 100% (cent percent) liquid

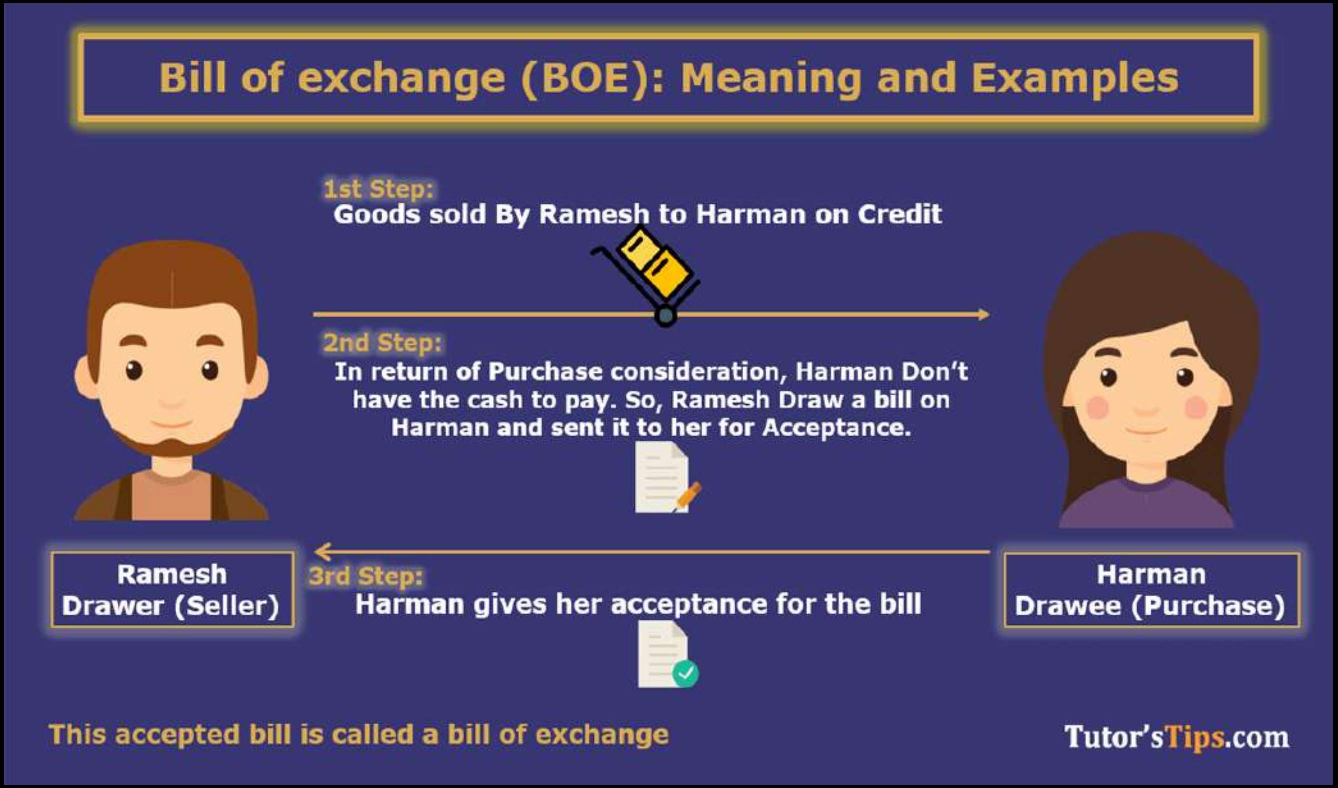
But you can use them directly to purchase goods and services first you have to convert it in to money (cash)liquid assets.. These liquid assets comprise of fixed deposits , govt., securities, saving accounts, shares, bonds and bearer certificates

All such assets have the quality of money as store of value, but they can not be used as a medium of exchange. However, after some time period they can be converted into money

निकट मुद्रा इस प्रकार वे सभी साधन (Assets) हैं जो मुद्रा की बहुत सी विशेषताएं रखते हैं, बहुत हद तक तरल हैं और जिनको बिना अधिक खर्च किए मुद्रा में तुरन्त परिवर्तित किया जा सकता है निकट मुद्रा को प्रत्यक्ष लेन-देन के लिए प्रयोग नहीं किया जा सकता।.

The followings are ***major types of near money.***

(i) Drafts and Bills of Exchange(विनिमय पत्र): *The drafts and bills of exchange are such financial documents which are attached with promise to pay the specific amount in future.*



RAMESH,
50,000

Three months after date pay to me or my order of fifty thousand only for value received

Stamp
Accepted
Sign
Harman

Sign
Ramesh

Treasury Bills (Govt securities : T-Bills):

short term (up to one year) borrowing instruments of the Government of India

Whenever govt. wants to borrow from public it sells its treasury bills. Such bills are sold when govt. faces budget deficit

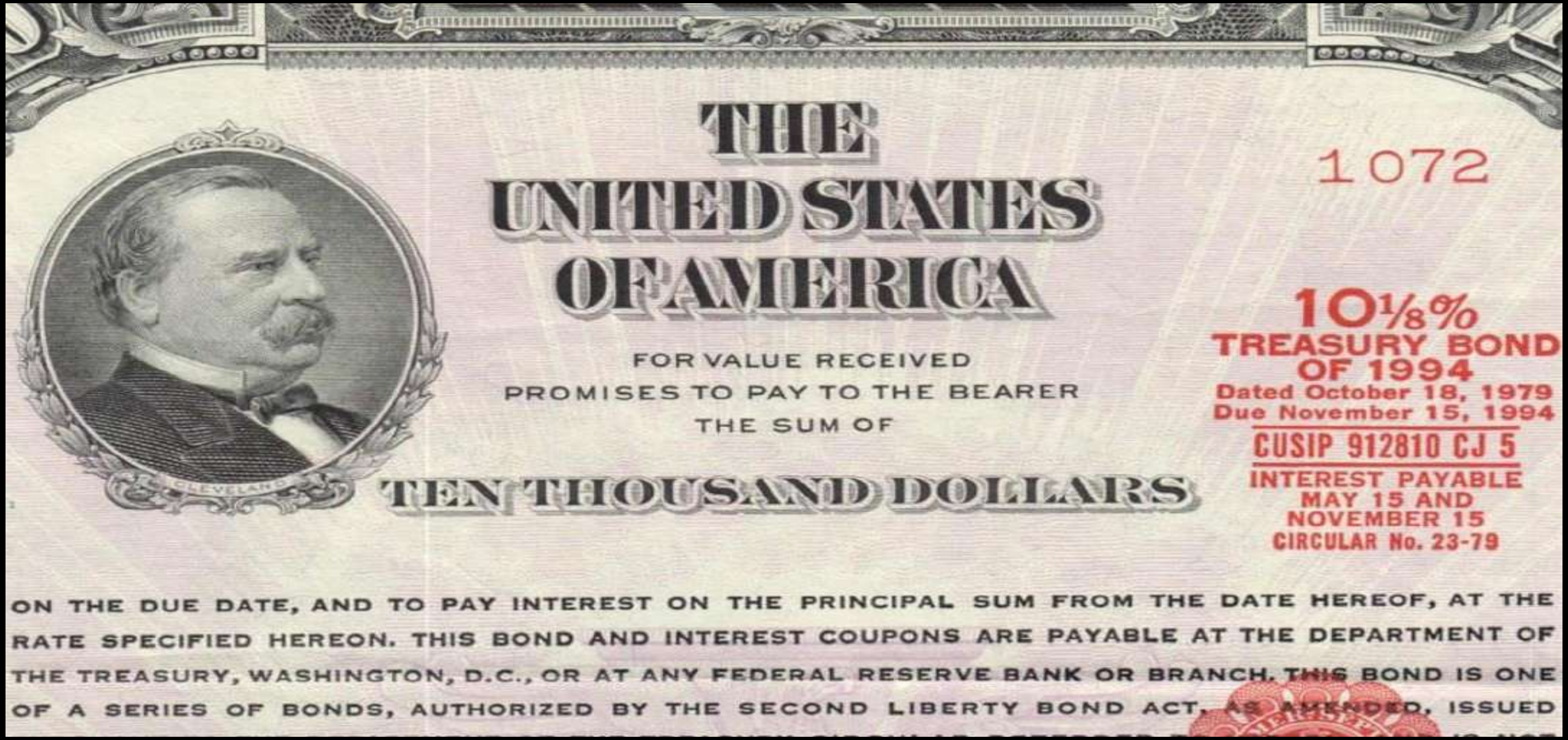
Bonds(ऋणपत्र):

long- term borrowing instruments of the Government of India
. Whenever, govt. or some institution is in need of money they issue bonds. The bonds which are issued by some business organization they are called "Debentures".
Bonds provide a source to borrow, particularly for a longer period. The bonds are furnished with the followings:

The bond holder will be given interest at a particular rate,

(a)The maturity period of bond will be specified,

(b) The bond holder will be able to get the principal amount after maturity period.



Equity Shares:

The firms in order to run their business sell their shares. The public purchases such shares. The share holders do not get the fixed amounts against their Shares. Rather, they have to share profit or loss of the company whom shares they are having. If at any time the firm closes its business the shareholders are paid after payment of all the debts. Stock exchanges sell or purchase shares.

Fixed and Saving Deposits:

People deposit their savings in fixed and saving accounts. Such amounts can not be withdrawn from banks before a particular period and heavy interest is paid against them.

(vi) Saving Certificates:

In addition to above mentioned, the travelers cheques, insurance policies, savings of general provident fund, prize bonds and money orders also represent Near Moneys.

Definition of money !

There has been lot of controversy and confusion over the meaning and nature of money.

According to Harry G. Johnson, there are broadly four approaches to define money.

- Conventional Approach
- Chicago Approach
- Gurley and Shaw Approach
- Central Bank Approach

Conventional Approach (परम्परागत परिभाषा)

The conventional approach is considered as one of the oldest approach for defining the concept of money.

It takes into consideration only two functions of money, namely, medium of exchange and measure of value.

Acc to Sir John Hicks "money is defined by its functions: anything is money which is used as money: 'money is what money does."

Money=Notes+ cions+ demand deposits

Monetarist Approach/Chicago Approach/Modern approach(शिकागो दृष्टिकोण)

The Chicago School led by Milton Friedman includes in money supply currency plus demand deposits plus time deposits.

The economics of the Chicago school,, argue that time deposits can be converted into currency or demand deposits and should, therefore be treated as money savings deposit account is “Money in the bank”

This approach lays emphasis on the store of value function of money

Money =Currency +Demand Deposits + Time deposits

Gurley and Shaw Approach

J.G. Gurley and E.S. Shaw in their book "Money in A Theory of Finance" 1960 have formulated a wider definition of money based upon liquidity.

According to them money should include all those instruments which are close substitutes of each other. Besides demand deposits money should include, time deposits, saving bank deposits, credit instruments shares, bonds, etc.

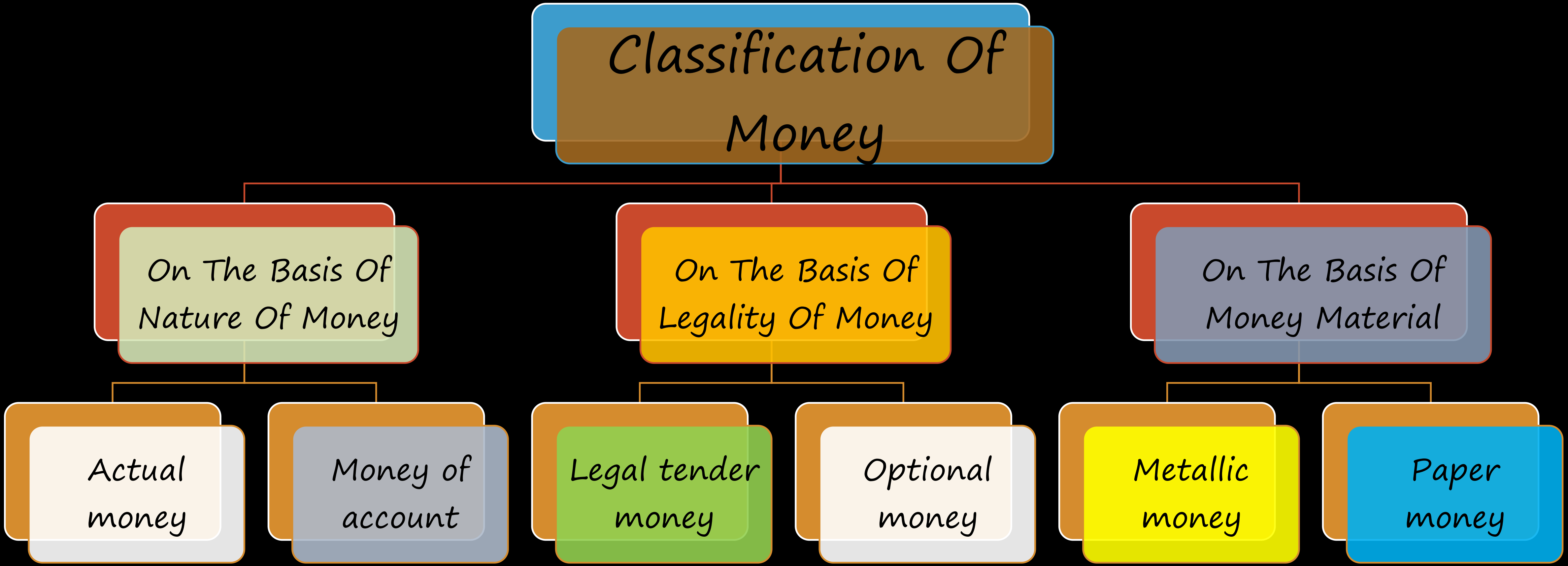
Money=Currency +Demand Deposits +Time Deposits + Saving deposits +Shares +Bonds etc.

Central Bank Approach or Redcliffe Approach

The central bank approach has provided the broadest possible definition for money
It defines money in terms of credit funds lent to borrowers
All Means Of Financing The Purchases
It provides much broader definition to money by including credits such as overdraft and loans in the definition of money.
Money=Currency +Demand Deposits +Time Deposits + Saving deposits +Shares +Bonds +securities +credit from unorganized sector.

To sum up, Crowther's definition is the best definition because it forms the core of all the other definitions.

It defines money as something possessing universal acceptability as a medium of exchange and at the same time, serving as a measure and store of value


Classification Of Money
On The Basis Of Nature Of Money
On The Basis Of Legality Of Money
On The Basis Of Money Material
Actual money
Money of account
Legal tender money
Optional money
Metallic money
Paper money

Money proper or Actual Money (वास्तविक मुद्रा) *is that money which circulates in a country as a medium of exchange. Which is used to buy goods & services .*

*. Benham calls it "**Unit of currency**" and Seligman refers to it as "**Actual money**".*

Keynes has divided actual money in to two parts

- *Commodity money : money whose*
  intrinsic value $\geq$ its face value .
- *Representative money:*
  intrinsic value $\neq$ its face value .

such money can be allowed be converted in to commodity money.

Paper money is further divided in to two parts

- Convertible Paper Money

Which is convertible commodity money. all currency notes above one rupee is convertible money

- Inconvertible Paper Money (one rupee note)

Money of account(हिसाब की मुद्रा) :

that in which Debts and Prices and General Purchasing Power are expressed".

It is that form of money in which the accounts are maintained and the value is measured.

E.g. Rupee in India

According to Keynes, money of account is the description or title,

while actual money is the thing which answers the description.".

Benham has called money of account as "**Unit of account**"

Seligman considers it as "**Ideal money**".

On the basis of acceptability, money has been classified into

1. Legal Tender Money 2. Optional Money.

Legal tender money(वैध मुद्रा)

which is enforced by law. No one can refuse to accept it as a means of payment..

legal tender money is further classified as

"**Limited Legal Tender**"

"**Unlimited Legal Tender**".

Limited Legal Tender :

one which has to be accepted up to certain limit .For example, in India, the small coins of 1,2,5,10 and 25 paise are legal tender only up to a sum of Rs. 25. That means up to Rs. 25 a person cannot refuse a payment through these small coins and beyond Rs. 25 he is free to refuse these coins.

Optional Money

is that money which is ordinarily accepted by the people but has no legal sanction behind it.

Credit instruments like cheques, bank drafts, bills of exchange, promissory notes etc. are optional money.

No one can be forced to accept them but they are generally accepted because people have confidence in the credit of these types of paper.

Optional money is also called credit money.

Robertson has called legal tender money as "*Common Money*" and optional money as "*Bank Money*" or *Customary Money*

Monetary Standards मौद्रिक मानक

A monetary standard refers to type of standard money used in the country . the overall set of laws, rules and practices which controls the quality and quantity of money in the economy.

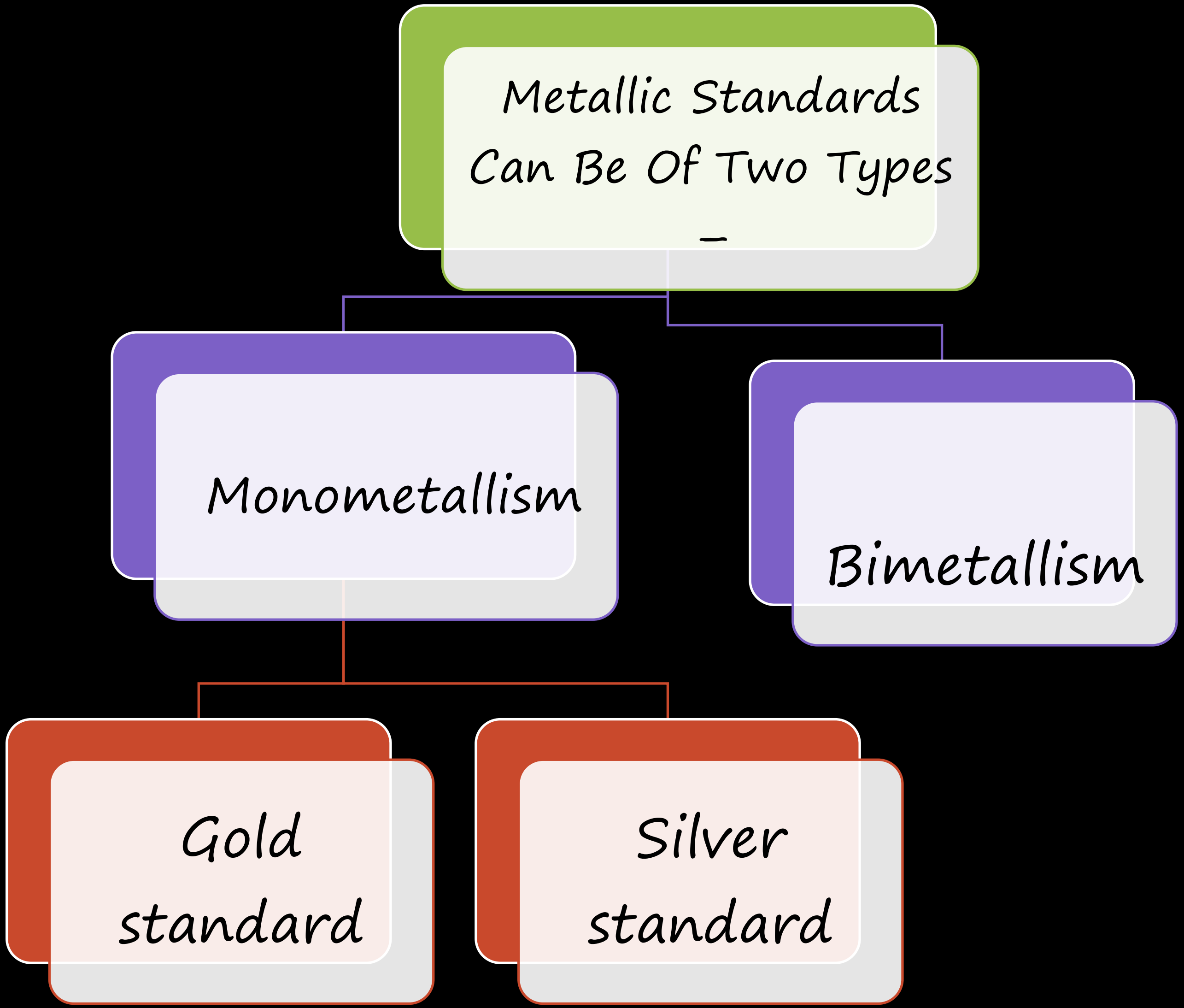
Monetary Standards is "the principle way of regulating the quantity of money in the market as well as its exchange value

मौद्रिक मानक का संबंध समस्त मुद्रा व्यवस्था से है उन नियमों और कानूनों का समूह हैं जो किसी देश की अर्थव्यवस्था में मुद्रा की आपूर्ति को नियंत्रित करते हैं। मुद्रा के उत्पादन और आपूर्ति के लिए नियम और कानून

Types of Monetary Standards मौद्रिक मानकों के प्रकार

Overall there can be two main kinds of monetary standards

- ❑ Metallic Standards (धातु मानक)
- ❑ Paper Standard. (कागज मानक)



Metallic Standards Can Be Of Two Types –

- ❑ Monometallism
- ❑ Bimetallism.

Monometallism

यहाँ केवल एक धातु को मानक मुद्रा के रूप में अपनाया जाता है। मौद्रिक प्रणाली पूरी तरह से एक धातु से बनी है और निर्भर करती है, जैसे सोने का मानक या चांदी का मानक। इसलिए सिक्के केवल एक धातु से बने होते

Gold standard

Silver standard

Gold standard स्वर्णमान

Gold Standard Is Monometallic Standard monetary system
where a country's currency or paper money has a value directly linked to gold. With the gold standard, countries agreed to convert paper money into a fixed amount of gold.
England was the first to introduce gold standard in 1816

There are 3 well known types of gold standard

- Gold Specie Standard or Gold Coin Standard or Gold Currency Standard (स्वर्ण चलन /करन्सी मान)full gold standard

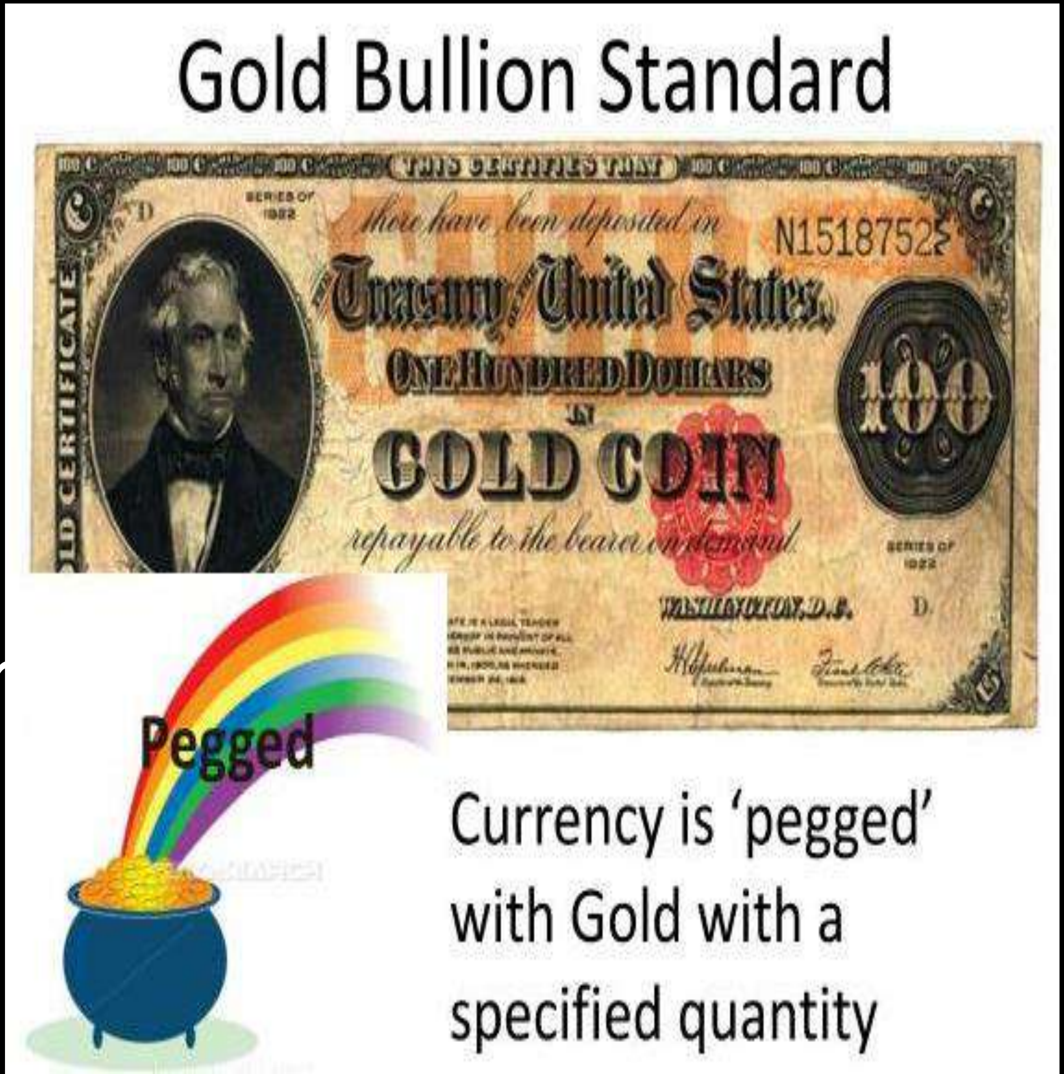
Gold coin standard or gold currency standard or gold species standard is the oldest form of gold standard:
This standard was prevalent in the U.K., France, Germany and the U.S.A. before the World War I.
under this standard full- bodies standard coins made of gold were circulated.
Other forms of money (e.g. token coins and paper money)
But they are convertible into gold.

Features:

- Gold coins of definite weight circulated within the country
- e.g. standard coin in the U.K. Its weight was 123.17447 grains with 11/12 purity.
- Other forms of money (e.g. token coins and paper money)
- Coinage is unlimited and free of cost.
- face value = intrinsic value of the standard coin
- There is free import and export of gold.
- Gold is unlimited legal tender for all types of payments.
- All values are expressed in terms of gold.

Gold Bullion Standard(स्वर्ण धातु मान)

Under the gold bullion standard, paper currency replaced gold coins
But the paper currency was expressed as a definite quantity of gold
gold was withdrawn from circulation and paper money was introduced..
England which adopted this system in 1925 suspended it in 1931.
America followed with the same decision in 1933 and France in 1936



Gold Exchange Standard(स्वर्ण विनिमय मान)

Under this standard, the currency of the country consisted of paper currency and token coins of silver and other metals .
They were not convertible in to gold coins or bullions..
but convertible in to other currency pegged with gold
परंतु विदेशी भुगतान के लिए मुद्रा का परिवर्तन उस देश की विदेश मुद्रा मे किया जाता था जिस में (gold standard)होता है

In the 19th Century it was a common phenomenon for countries who were still on silver standard, and who didn't possess large gold reserves.
India 1900

Gold parity Standard(स्वर्ण समता मान)

Emerged with establishment of IMF in 1946

Every country has to declare the value of their currency in fixed quantity of gold .not gold standard in real sense

It is to keep exchange rate stable

Bimetallism standard

A bimetallic standard, or **bimetallism, is a monetary system** in which a government recognizes coins composed of both gold or silver as legal tender. The bimetallic standard backs a unit of **currency** to a fixed ratio of gold and silver

दोहरे मानक प्रणाली में, दो धातुओं को मानक मुद्रा के रूप में अपनाया जाता है। विनिमय की सुविधा के लिए दो धातुओं के मूल्य के बीच एक निश्चित कानूनी अनुपात है। आमतौर पर, दो धातुएं सोने और चांदी हैं। तो दो प्रकार के मानक सिक्के ढाले जाते हैं (सोने और चांदी)।

Gresham's law,

The law is named after Sir Thomas Gresham (1519-79),

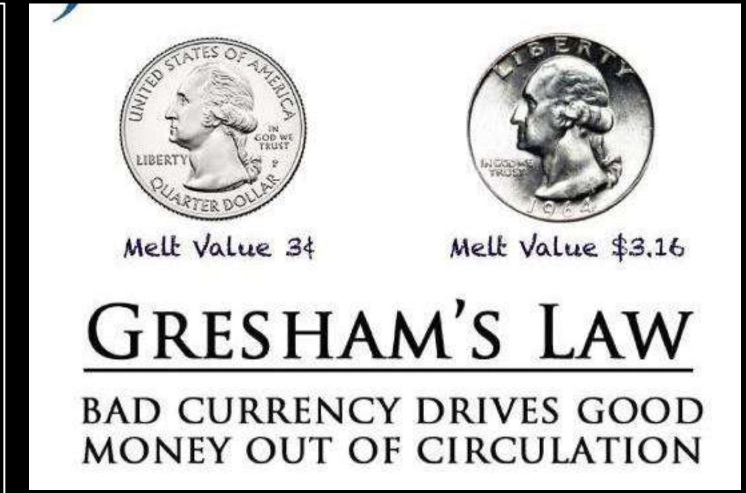
"bad money drives good money out of circulation ."

Bad money commodity (intrinsic value <face value

worn out, clipped or underweight coins.

Good money commodity value (value of metal)≥face value

Whenever coins containing precious metals have been used along with base metal coins of the same face value , both legally accepted as legal tender, the bad coins have driven the good coins out of circulation.



How does good money disappear from circulation?
Good money disappears from circulation through the following ways:

Hoarding : people hoard the good money and pass out the bad

Melting:

If the good money is a coin, the good coins will be melted down and sold as bullion

Export to foreign countries :

The coin of one country is not legal tender in a foreign country. Hence, foreigners will not accept it as coin but only as bullion