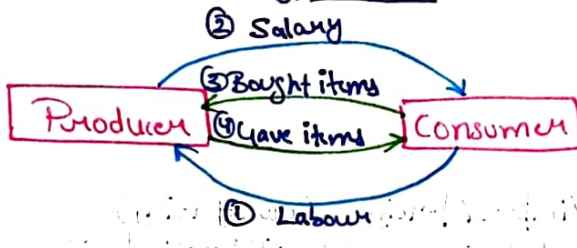


# ECONOMICS

- Economics Starts by transition b/w two people.
- Before it was Barter System, but now Rupee come.

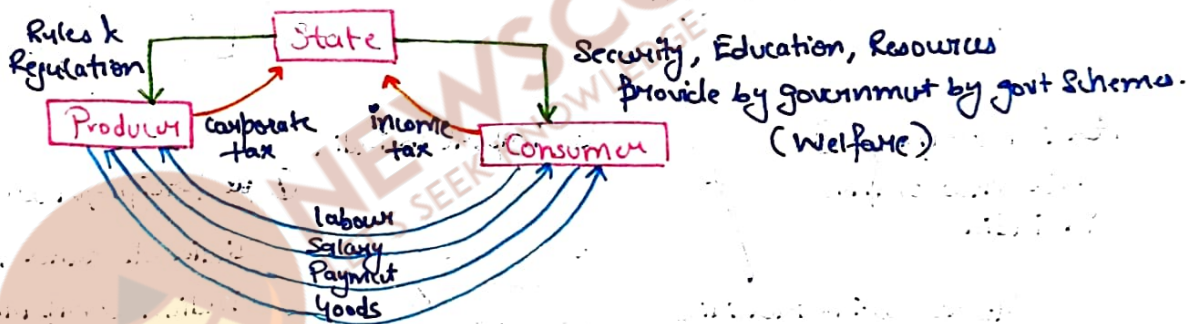
(1) When there is no State/government :-



There is no rule & Regulation  
i.e. Producer may not give Salary  
or Consumer may not work but  
take Salary.

↓ In order to make rules & Regulation / Security  
State / government comes.

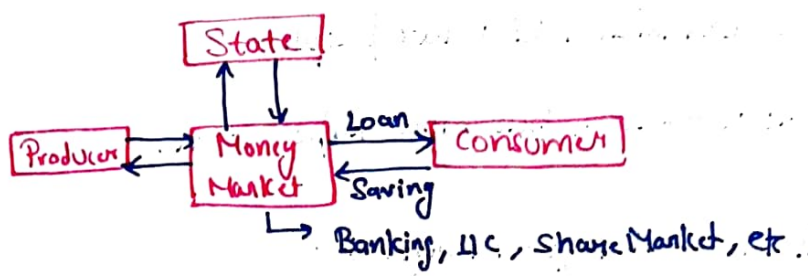
(2) Role of state :-



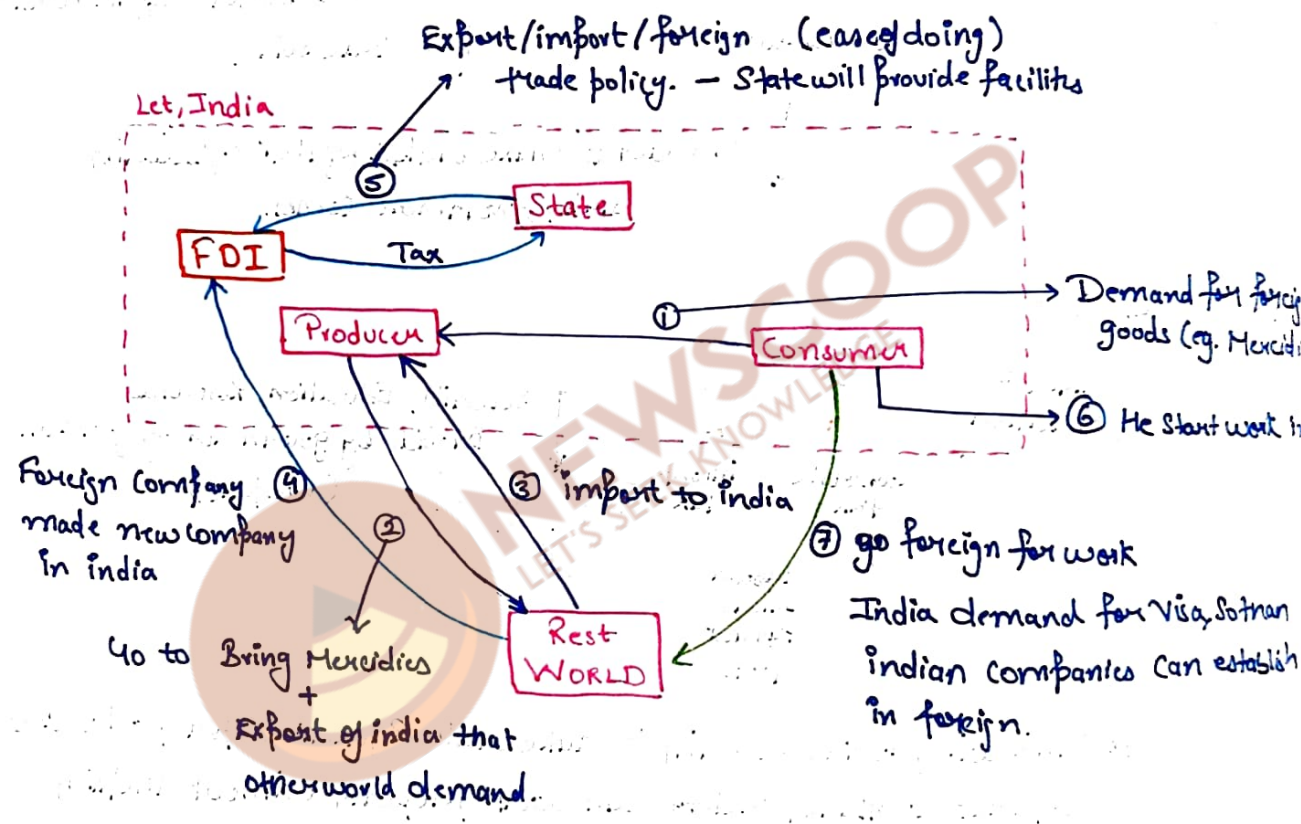
- (a) State will provide Security & make rules & Regulations for producer's company. So, that company / factory can work properly without thefting.
- (b) State gave education, Security & other facilities to Consumer so that they can work in factory & got Salary.

Fact → State shall not to be producer (LIC, BPCL, etc) because  
State work is to regulate producer not to be producer.

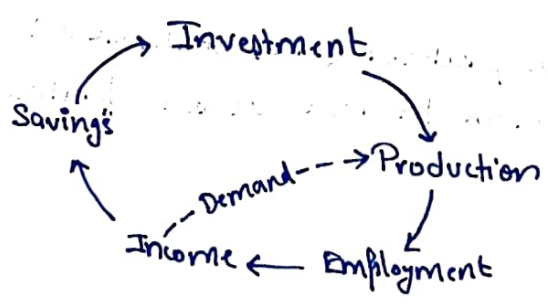
(3) Money Market :- Give loan & deposit



(4) Rest of World :-



⇒ Investment Cycle :-



Syllabus

- (1) Regulate (SEBI, ...)
- (2) Welfare Scheme
- (3) Taxation
- (4) Money Market
- (5) BOP (Balance of Payment) i.e. Foreign Reserves
- (6) Infrastructure
- (7) Organizations

→ What is Economy? All activities related to production, consumption, trade of Goods & Services in area.

(1) Linear Economy - Take → Make → Use → Waste  
of Pen.

(2) Circular Economy - Reduce → Reuse → Recycle  
or Repair

→ What is Money? Money is defined as currency or demand deposits and its most significant function is to act as a means of exchange.

Function of Money :-

(1) Medium of Exchange.

(2) Measure of Value. (eg. Calculate value of pen - ₹5)

(3) Standard of Deferred Payments. (₹100) with interest.

(4) Store of Value. (not gold / house)

↓  
eg. I took a loan then what will be interest?

→ Barter System :- Exchange of Goods.

Difficulties :-

(1) Double Coincidence of Wants. - Rare case & persons need each other things.

(2) Lack of info about product quality

(3) No unit to measure worth of goods.

What is 'C-C Economy'? Refers to Commodity-Commodity Economy. i.e. Barter system prevails for fulfilment of wants. People exchange commodities.

## ⇒ Types of Money :-

(1) Commodity Money :- Money is made of a commodity.  
eg. Gold, Silver, etc.

(2) Fiat Money :- It has no intrinsic worth. What is printed on it is worthless.

\* Fiat Money derives its value from government regulations and law.

\* - Money that the government guarantee as a legal tender.

\* Tender Money → The money which a creditor is under compulsion to accept in settlement of his claim.

(3) Fiduciary Money :- Whenever, any bank assures the customer to pay in different types of Money & when the customer can well the promise or transfer it to somebody.  
- It is generally paid in Gold, Silver or paper Money (check)  
(on the basis of Trust)

(4) Bank Money :- Commercial Bank Money / Demand Deposit are 'claims' against financial institutions that can be used for purchase of goods & services.  
eg. Check, online payment.

(5) Full Bodied Money :- It is a commodity, same value as money  
eg. Silver coins, & Sooks print on it  
↓  
You can give it to someone or you can melt it for Sooks.

(6) Credit Money :- Value of Money is greater than commodity value.  
eg. Rupee not sign of Governor.

⇒ Money Supply :- Amount of financial instruments within specific economy available for purchasing goods or services.

- Measure in M1, M2, M3 and M4  
bring this concept in 1977

↓  
Total Money in Market supply  
by RBI.

(1) M0 (Reserve Money / Base Money) :- Also called 'High powered Money.'

[ Currency in circulation + Banker's Deposit with RBI + other Deposits with RBI (govt or any other) ]

This money issued by Govt + RBI.

(2) M1 (Narrow Money) :-

[ Currency with public + Public Money with bank system (Demand Deposit) + other Deposit with RBI ]  
↓  
Current / Saving Acc.

(3) M2 Money (Narrow) :-

M1 + Small Saving (Piggy Bank / Post office)

So,  $M2 > M1$

(4) M3 (Broad Money) :-

M1 + Time Deposit (FD's / RD's)

↳ 1000 + 1000 + 1000 -----  
↳ 1 Lakh at same time

(5) M4 (Broad Money) :-

M3 + Post office Savings (Both time & Demand fixed Deposit)

Liquidity →  $M1 > M2 > M3 > M4$

[ Broad Money means  
FD's which dec.  
liquidity ]

Time Deposit is FD & RD.

## Fixed Deposits vs

## Recurring Deposits

FD

RD

- User invest his money for a long time in lump sum.
- 8 to 8.5% but generally higher than RD.
- one time
- Minimum 10000

- Customer deposit a fixed sum of money in short intervals.
- 8 to 8.5% interest rate.
- Repeat invest of same amount.
- No limit, can go low as 1000.

### ⇒ What is Liquidity Coverage Ratio - LCR?

- Proportion of highly liquid asset held by financial institutions, to ensure their ongoing ability to meet short term obligations.
- Daily Basis, if some/many people come to take money from bank.
- Robber's Loot 'LCR'.
- This money is to give to people.

### ⇒ What is Weighted Average Lending Rate - WALR? It is an average interest rate of all the banks in India

whether Indian/local/foreign.

eg: PNB → 7%  
ICICI → 9%  
CityBank → 11% } average = 9%

★★ Government Bank interest < WALR always.

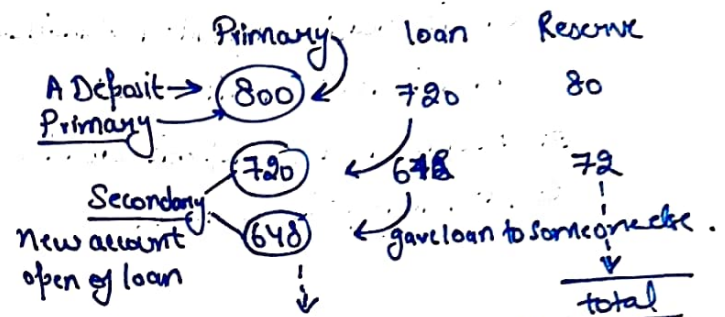
⇒ Primary Deposits / Cash Deposits :- When cash or cheque is deposited by the customer.

- At anytime person can withdraw this amount

⇒ Secondary Deposits :- Credit by loan.

example :-

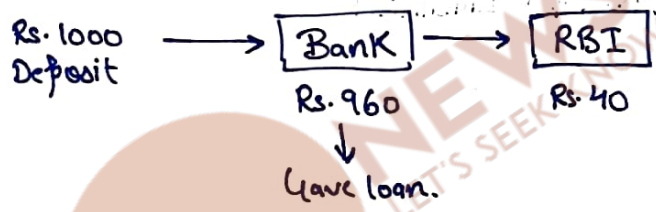
Also called 'Derivative Deposit' and 'Active Deposite'



★ Demand Deposit = Primary + Secondary  
 ↳ it is also called 'Bank Money'

★ it's called Cushion Money

⇒ Cash Reserve Ratio (CRR) :- 4% Present of Demand Deposit

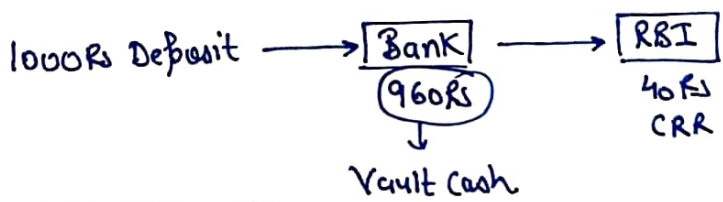


- It is also called 'Legal Reserve Ratio'  
 - Determine by RBI

✓ If CRR increase then bank's Credit Generation Capacity Decrease.  
 i.e.  $\text{Money Multiplier} = \frac{1}{\text{CRR}}$

✓ Money Multiplier increase with banking habit of population.

⇒ Excess Reserve / Vault Cash :-



i.e.  $\text{DD} - \text{CRR}$ .

⇒ Credit Entry :- 1000 Rs deposit in bank is Credit Entry

960 Rs loan to someone → 960 Credit Entry in someone's passbook

## ⇒ Limitation of Credit Creation :-

- (1) Bank receive more cash, they can create more loans. It all depend on amount of cash.
- (2) All deposit can't be used as credit. i.e. CRR.
- (3) Loan advanced to customer again come back into banks.
- (4) Credit creation depend on business condition, i.e. During Depression there is low credit creation.
- (5) People need to deposit cash in bank for smooth flow.
- (6) Monetary policy of RBI.

## What are Assets & Liabilities?

↓  
Loans + infrastructure  
of Bank

↓  
People's Deposits that Bank  
need to give back.

Yes Bank → Assets ↓ & Liabilities ↑

