



# UP - PCS

## Provincial Civil Services

Prelims & Mains

Uttar Pradesh Public Service Commission, Prayagraj

### General Studies

### Paper 3 – Volume 1

### Economy



# G.S. PAPER – 3 VOLUME – 1

## ECONOMY

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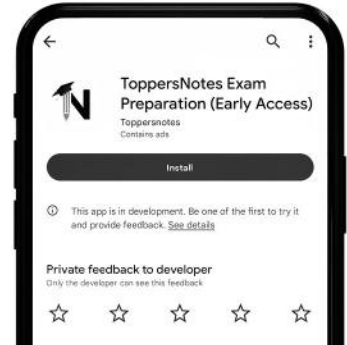
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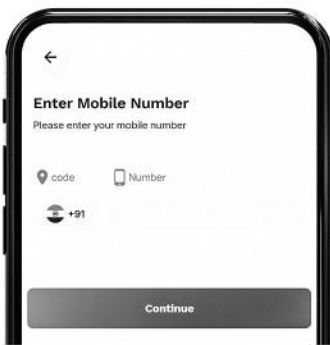
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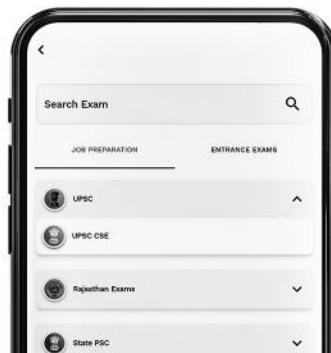
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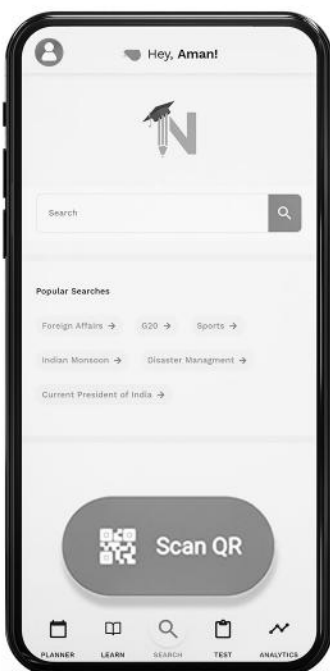
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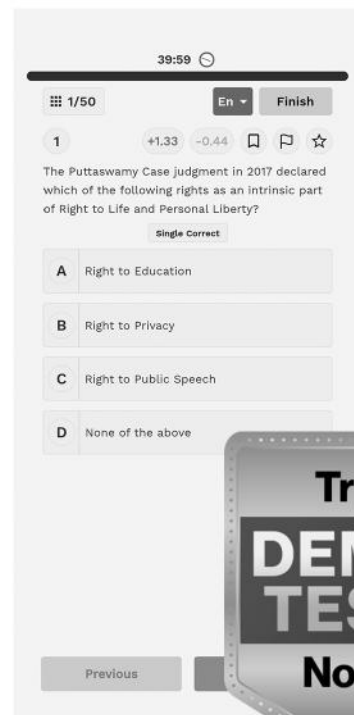
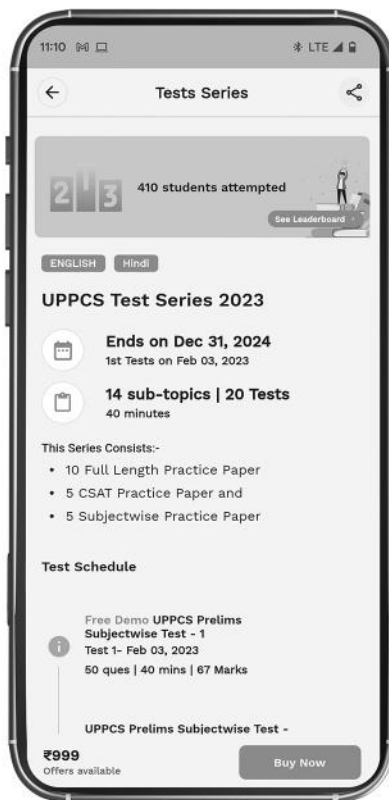
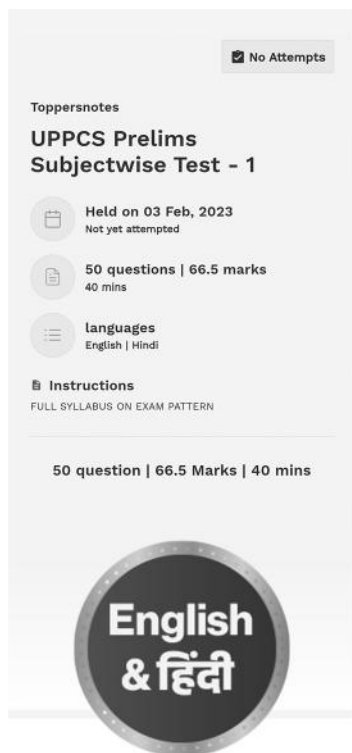
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- **National income:** The total value of **final goods and services produced by the normal residents during an accounting year, after adjusting depreciation.**
  - It is Net National Product (NNP) at Factor Cost (FC)
  - It does not include taxes, depreciation and non-factor inputs (raw materials)
- Also **useful in determining the country's progress.**
- It Includes: **Wages, interest, rent, and profit received** by components of production such as: **labour, capital, land, and entrepreneurship**
- **Domestic Income:** Total value of final **goods and services produced within a domestic territory during an accounting year, after adjusting depreciation.**
  - It is **NDP at Factor Cost.**
- **Both NNP and NDP can be measured at constant prices (real income) or market prices (nominal income)**
- **National income: Domestic Income + NFIA**

Some Important Terms	
Factor Cost	<ul style="list-style-type: none"> <li>● <b>Total cost of all the factors of production</b> consumed or used in producing a good or service.</li> </ul>
Basic Price	<ul style="list-style-type: none"> <li>● <b>Amount a producer receives from a purchaser</b> for a unit of a good or service provided as <b>output, minus any tax due and any subsidy due</b> on that unit as a result of its production or sale.</li> </ul>
Market Price	<ul style="list-style-type: none"> <li>● Price at which a <b>thing is sold in the market.</b></li> <li>● <b>Covers wages, rent, interest, input prices, profit, &amp; other costs of production.</b></li> <li>● Also <b>covers government-imposed taxes &amp; government-provided producer subsidies.</b></li> </ul>
Depreciation	<ul style="list-style-type: none"> <li>● The <b>wear and tear of capital assets</b></li> <li>● <b>Capital consumption allowance</b> - another term for depreciation.</li> </ul>
Transfer Payments	<ul style="list-style-type: none"> <li>● A <b>monetary payment</b> for which <b>no goods or services are exchanged.</b></li> <li>● <b>Efforts by local, state, and federal governments to redistribute money to individuals in need</b> are usually referred to as transfer payments.</li> <li>● <b>Transfer payments</b> such as Social Security and unemployment insurance are popular in the United States.</li> <li>● <b>Transfer payments are not typically used to describe corporate bailouts and subsidies.</b></li> </ul>

## Aspects of National Income

### # Gross Domestic Product (GDP)

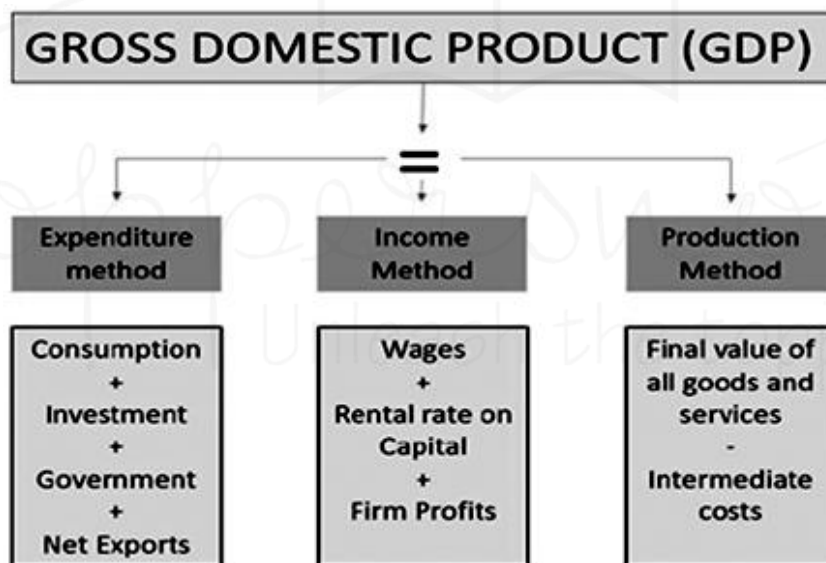
- Total value of **goods and services produced in a country.**
- Economic indicator used to **gauge a country's economic growth.**



- Estimated **at regular periods** (such as quarterly, yearly).
  - For India it is from **1st April to 31st March**.
- **Production area for calculation of GDP** includes
  - A **country's geographical borders** including its **Exclusive Economic Zones (EEZ)** (up to 200 nautical miles or 360 kms)
  - A **country's embassy** in different nations
  - **Production in moving vehicles** like ships, aircraft, etc.
- **Goods included:** all final goods and services **produced by the normal residents and non-residents in the domestic territory** of the country
  - does **not include Net Factor Income from Abroad (NFIA)**
- **Calculated by Central Statistics Organization**, Ministry of Statistics and Programme.
- 'Quantitative concept' and indicates **internal strength of the economy**.
- **Used by the IMF & World Bank in comparative analyses** of member economies.

$$\text{GDP} = \text{consumption} + \text{investment} + \text{government spending} + \text{exports} - \text{imports}$$

### # Methods for Calculating GDP



Nominal GDP	Real GDP
<ul style="list-style-type: none"> <li>● Total financial business value <b>produced inside the country</b>.</li> <li>● <b>Without Inflation</b> adjusted.</li> <li>● At <b>Current year prices</b>.</li> <li>● <b>High Worth</b></li> <li>● Compares quarters of a year.</li> </ul>	<ul style="list-style-type: none"> <li>● GDP metric adjusted: With changes in the general price level.</li> <li>● <b>Inflation-adjusted</b></li> <li>● At <b>regular prices</b></li> <li>● <b>Low Worth</b></li> <li>● Compares two or more FYs</li> </ul>
<div style="border: 1px solid black; padding: 5px;"> <math display="block">\text{Nominal GDP} = \text{Current Year Production} \times \text{Current Year Price}</math> </div>	<div style="border: 1px solid black; padding: 5px;"> <math display="block">\text{Real GDP} = \text{Current Year Production} \times \text{Base Year Price}</math> </div>
<ul style="list-style-type: none"> <li>● does <b>not truly indicate the real performance</b> of economy</li> </ul>	<ul style="list-style-type: none"> <li>● only <b>change in real production of goods and services</b> is captured.</li> </ul>

### GDP Deflator

- **Ratio of Nominal GDP to Real GDP**
- gives an **idea of how the prices have moved from the base year to the current year.**

$$\text{GDP Deflator} = \text{Nominal GDP} / \text{Real GDP}$$

### GDP Growth Rate:

- Measures **how fast the economy is growing.**
- Measures the **change in GDP in two consecutive years** or quarters.

$$\text{GDP Growth Rate} = 100 \times [(\text{GDP current year/quarter} - \text{GDP prev. year/quarter}) / \text{GDP prev. year/quarter}]$$

- **Real Economic Growth Rate** takes into account the **buying power** and is **inflation-adjusted.**

### GDP at Factor Cost (GDPFC)

- Factor cost is the cost of producing a commodity. It includes the cost of land, labour, capital and the profits of the producer.

### GDP at Market Price (GDPMP)

- Market price includes net indirect taxes along with the factor cost. (Net indirect tax is the difference b/w total indirect tax and subsidies)

$$\text{GDPMP} = \text{GDPFC} + \text{Indirect tax} - \text{Subsidy}$$

### Gross Value Added (GVA)

- **economic productivity metric** that measures contribution of a corporate subsidiary, company, or municipality to an economy, producer, sector, or region.
- **used to adjust GDP** and measure how much money a product or service has contributed toward meeting a company's fixed costs.

$$\text{GVA} = \text{GDP} + \text{Subsidies} - \text{Taxes}$$

### Net Domestic Product (NDP)

- **Net worth** of all goods and services **generated inside a country's geographic borders.**
- **Value of depreciation** of national capital assets such as **machinery, houses, and cars** is **subtracted** from the GDP to calculate NDP
- **Other considerations:** such as asset **obsolescence and complete destruction**, also taken into account by the NDP.



$$\text{Net Domestic Product (NDP)} = \text{Gross Domestic Product (GDP)} - \text{Depreciation.}$$

- **Significance**
  - To understand the historical **situation of the loss** due to depreciation to the economy.
  - To **understand and analyze the sectoral situation** of depreciation in industry and trade in comparative periods.
  - **Showcase the achievements of the economy** in the area of R&D, which have tried curing the levels of depreciation in a historical time period.

## Gross National Product (GNP)

- **Total value of all goods and services** produced by citizens and enterprises in a country, regardless of **where they are produced**
- It is the **GDP of a country added with its income from abroad**.
- '**Income from Abroad**' includes:
  - **Trade Balance:** net outcome at year end of the total exports and imports of a country
  - **Interest on External Loans:** balance of **interest on the money lent by the country and the interest on the money it has borrowed** from other countries.
    - **India** has always been a '**net borrower**' from the world economies.
  - **Private Remittances:** account of the '**private transfers**' by **Indians working abroad** (to India) and **foreign nationals working in India** (to their home countries).



**GNP(Y)** = Consumption expenditure (c) + Investment (I) + Government expenditure (G) + Net exports (X) + Net income from Abroad(Z).

- $Y = C + I + G + X + Z$

- **Factors to GNP:** Manufacturing of items such as **equipment, machinery, agricultural products, and cars** & some services such as **consulting, education, and health care**.
- **The cost of delivering services** is **not calculated**.
- When a **citizen holds dual citizenship** : **GNP per capita** is utilized to calculate GNP on a **country-by-country basis**.
- In that situation, their **earnings are counted twice**, as each country's GNP.

## Net National Product (NNP)

- **Value generated by removing depreciation** from the gross national product.
- **Determines how much a country can consume** in a specific time span.



**NNP = GNP – Depreciation**

or

**NNP = GDP + Income from Abroad – Depreciation**

- When a country's net national product (**NNP**) **dips or falls**,
  - Businesses **contemplate shifting to industries** that are **considered recession-proof**.

Personal Income	<ul style="list-style-type: none"> <li>● Amount of <b>money earned collectively by the citizens of a country</b>.</li> <li>● Ex.: <b>Money</b> obtained from <b>employment, dividends and distributions paid by investments, rents derived from property ownership, and profit sharing</b> from enterprises.</li> <li>● Taxation is imposed on personal income in most cases.</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <math>PI = \text{National Income} - \text{Undistributed Profits} - \text{Net interest paid by households} - \text{Corporate tax} + \text{Transfer payments to the households from the government and firms}</math> </div>
Personal Disposable Income	<ul style="list-style-type: none"> <li>● <b>Income available to the households</b> that they can spent as they wish</li> <li>● Income available after payment of taxes and other non-tax payments</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <math>PDI = PI - \text{Personal tax payments} - \text{non-tax payments}</math> </div>

National Disposable Income	<ul style="list-style-type: none"> <li>sum of the gross (or net) disposable incomes of the institutional sectors.</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;">       Gross (or net) NDI = gross (or net) national income (at market prices) - current transfers payable to non-resident units.     </div>
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## Methods of computing National Income



Income Method	<ul style="list-style-type: none"> <li>Estimated <b>by adding all production factors</b> (rent, salary, interest, profit) &amp; <b>mixed-income by self-employed</b>.</li> <li>We add all net income payments received by all citizens of a country in a given year using this procedure.</li> <li><b>Net incomes from all factors of production</b> are added.           <ul style="list-style-type: none"> <li>Eg: net rents, wages, interest, and profits.</li> </ul> </li> <li><b>Income received</b> in the form of <b>transfer payments</b> is <b>not included</b>.</li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Net National Income = Compensation of Employees + Operating surplus mixed (W +R +P +I) + Net income + Net factor income from abroad.</b></p> <p>Where,</p> <ul style="list-style-type: none"> <li>■ W = Wages and salaries</li> <li>■ R = Rental Income</li> <li>■ P = Profit</li> <li>■ I = Mixed Income</li> </ul> </div>
Product/Value Added Method	<ul style="list-style-type: none"> <li><b>Aggregate value of final goods and services</b> produced in a country <b>throughout a financial year</b> at market prices.</li> <li><b>To calculate GNP</b>,           <ul style="list-style-type: none"> <li>data from all productive activities are gathered and analysed, including :               <ul style="list-style-type: none"> <li>■ agricultural goods,</li> <li>■ minerals, and</li> <li>■ industrial products</li> <li>■ Contributions to production <b>made by transportation, insurance, communication, attorneys, doctors, and teachers, etc.</b></li> </ul> </li> </ul> </li> </ul> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>National Income = GNP – Cost of Capital – Depreciation – Indirect Taxes</b></p> </div>
Expenditure Method	<ul style="list-style-type: none"> <li>National Income is <b>measured as the flow of expenditure</b>.</li> <li><b>Total expenditure</b> by the society summed up includes:           <ul style="list-style-type: none"> <li>Personal consumption expenditure,</li> <li>Net domestic investment,</li> <li>Government expenditure on goods and services, and</li> <li>Net foreign investment.</li> </ul> </li> </ul> <p><b>National Income = National Product = National Expenditure</b></p>



## Standing Committee on Economic Statistics

- **Constituted by:** Ministry of Statistics and Programme Implementation (MOSPI)
- **Chairman:** former **Chief Statistician**
- **Functions**
  - **Analyse and Develop:** country's surveys on employment, industry, and services.
  - **Look at the current framework** of data sources, indicators, and definitions.
    - For **index of industrial production, periodic labour force surveys, time use surveys, economic censuses, and unorganised sector statistics.**
  - **4 standing committees** on : labour force statistics, industrial statistics, services sector, and unincorporated sector firms will be absorbed into the SCES.
  - **108 economists and social scientists** expressed worry over "**political involvement**" in influencing statistical data in India.
  - **Appealed for the statistical organisations' "institutional independence"** and integrity to be restored.

## 2 CHAPTER

# MONEY AND MONEY SUPPLY



### Evolution of Money

Barter system	<p><b>Exchange of commodities with the mediation of money</b></p> <ul style="list-style-type: none"> <li>No concept of money and banking.</li> </ul>
Concept of Money	<p><b>“Money is the most commonly accepted medium of exchange”.</b></p> <ul style="list-style-type: none"> <li>Any object accepted as <b>means of payment</b> ex. Currency, coins etc.</li> <li><b>Money acts as a facilitator only</b>, not a necessity.</li> </ul>



### Functions of Money

Unit of exchange	<ul style="list-style-type: none"> <li>To <b>measure the values of all goods and services</b>.</li> <li><b>Expressed in Price</b> (Monetary value/unit of good or service).</li> <li><b>Eg:</b> In India Rupees per unit of a good (kilogram, liter etc.)</li> </ul>
Medium of exchange	<ul style="list-style-type: none"> <li>Object that is <b>accepted as a form of payment</b>.</li> <li>It indicates the freedom of choice that use of money offers (whatever goods and services).</li> <li>This function is available properly if the value of money remains constant.</li> </ul>
Standard of Deferred Payments	<ul style="list-style-type: none"> <li>For deferred of future payments.</li> <li>Ex. <b>pensions, principle and interest on debt</b>, salaries etc.</li> </ul>
Store of Value	<ul style="list-style-type: none"> <li>Can be kept and later exchanged for products and services</li> <li>Money holders have a broad range of purchasing power.</li> <li>Bonds, property, and houses, Ex: can all serve the same purpose as money.</li> </ul>

### Classification of Money

#### # Full-bodied Money

- Money whose value as a commodity for non-monetary purposes is as great as its face value.
- Ex. **gold, silver, cattle** etc.

#### # Representative Full-bodied Money

- Type of money which is **made of paper**.
- Advantage- convenient to engage in trade** which requires large sums of money.

#### # Credit Money

- Money whose value is more than the commodity value** of the material from which money is made.



## # Types of Money

<b>Reserve Money</b>	<ul style="list-style-type: none"> <li>● <b>Most important element</b> of the RBI's monetary policy.</li> <li>● <b>RBI: issues currency notes</b> in denominations of Rs. 2, 5, 10, 20, 50, 100, and 2000 rupees.</li> <li>● <b>RBI(On behalf of the Indian government) :</b> <ul style="list-style-type: none"> <li>○ Issues currency in the form of <b>1 rupee notes and coins</b> &amp; smaller denomination coinage.</li> </ul> </li> </ul> <p>There are <b>6 types</b> of Reserve Money :</p> <ul style="list-style-type: none"> <li>● RBI's net credit to the government.</li> <li>● RBI's net credit to the Banks.</li> <li>● RBI's net credit to the commercial banks.</li> <li>● Net forex reserve with the RBI.</li> <li>● Govt's currency liabilities to the public.</li> <li>● Net non-monetary liabilities of the RBI.</li> </ul>
<b>Narrow Money</b>	<ul style="list-style-type: none"> <li>● All physical money, such as coins and cash, as well as demand deposits and other liquid assets held by the RBI.</li> <li>● <b>Narrow Money (M1) → Currency + Bank Money held by the people.</b></li> <li>● It excludes public time deposits in the banking system,           <ul style="list-style-type: none"> <li>○ They are income-producing assets and hence are not liquid.</li> </ul> </li> </ul>
<b>Near Money</b>	<ul style="list-style-type: none"> <li>● Some financial assets, such as currency notes and chequable deposits, may not be as liquid.</li> <li>● <b>Ex. : Time deposits, Bankers Acceptances, Bills of Exchanges,</b> government and private bonds, Saving certificates, Shares, and other financial instruments,</li> <li>● <b>Have power of money</b> but are <b>unable</b> to perform immediate economic activities.</li> <li>● Highly liquid(can be easily converted into money).</li> <li>● <b>Eg:</b> <ul style="list-style-type: none"> <li>○ <b>Savings account,</b></li> <li>○ <b>Money funds,</b></li> <li>○ <b>Bank time deposits (certificates of deposit),</b></li> <li>○ <b>government treasury securities (such as T-bills),</b></li> <li>○ <b>Bonds near their redemption date,</b></li> <li>○ <b>Foreign currencies like US dollar, euro or yen.</b></li> </ul> </li> </ul>
<b>Hard Money</b>	<ul style="list-style-type: none"> <li>● <b>Money issued with the backing of gold</b> or other very credible assets.</li> <li>● Hard money avoids the risks of inflation.</li> </ul>
<b>Soft Money</b>	<ul style="list-style-type: none"> <li>● <b>Paper currency backed by government bonds.</b></li> <li>● <b>Money printed without sufficient reserves,</b> like gold, in proportion to the new money.</li> <li>● Under soft money, there is a <b>stronger element of inflation.</b></li> </ul>
<b>Fiat Money</b>	<ul style="list-style-type: none"> <li>● <b>Fiat money refers to banknotes and coins.</b></li> <li>● They don't have the same inherent worth as a gold or silver coin.</li> </ul>





	<ul style="list-style-type: none"> <li>• aka <b>legal tenders</b>,               <ul style="list-style-type: none"> <li>○ No citizen can refuse to accept them as payment.</li> </ul> </li> </ul>
<b>Hot Money</b>	<ul style="list-style-type: none"> <li>• Funds: flow into a country to take advantage of the country's favourable interest rates.</li> <li>• They have an impact on the recipient country's balance of payments and enhance the exchange rate.</li> </ul>
<b>Legal Tender Money</b>	<ul style="list-style-type: none"> <li>• <b>RBI Act of 1934 : grants RBI sole authority to create bank notes.</b></li> <li>• Legal tender for currency notes is infinite.</li> <li>• When fiat money is legally recognised for all debts and transactions across the country, it is called as "legal tender."</li> </ul>

- **Monetization:** The process of **transforming something into money**.
  - **In banking:** The process of converting or establishing anything into legal tender.
- **Demonetization:** Demonetization is the process of removing the legal tender status of a monetary unit.
  - The **present form or forms of money are withdrawn** from circulation and **replaced with new notes or coins**.

## Cryptocurrencies and Bitcoin

- **Type of digital or virtual currency** that serves as a medium of transaction.
- **not issued by a central authority** and **does not exist in physical form** (like paper money)
- **Bitcoin** : first decentralised cryptocurrency, released as open-source software in 2009.
- Other popular cryptocurrencies : **Ethereum, Ripple, NEO, Litecoin, Bitcoin Cash, Libra, Binance Coin** etc.



## # Central bank digital currency

- RBI recommended broadening the definition of "bank note" to include digital currency.
- **CBDC:** A **digital version of fiat currency** that may be exchanged via **blockchain-backed wallets** and is **controlled by the central bank**.
- Digital type of **legal money issued by a central bank**.
- **Based on bitcoin**, but it differs from **decentralised virtual currencies and crypto assets**, which are not **created by the government** and are not "legal tender."
- **Fiat Money:** A **government-issued currency** not backed by a commodity such as gold
- **Central banks have more power over the economy** since they can regulate how much money is produced using fiat money.

## # Need

- **Addressing the Malpractices:** RBI may control malpractices by regulating digital money.
- **Addressing Volatility:** Since the value of cryptocurrency is solely determined by speculation (demand and supply), thus becoming extremely volatile.
- **Digital Currency Proxy War:** In the digital era, to push back against the inevitable proxy war which

threatens our national and financial security.

- **Reducing Dependency on Dollar:** gives India the potential to build Digital Rupee as a superior currency for commerce with its strategic partners, reducing its reliance on dollar.
- **Advent of Private Currency:** If private currencies gain acceptance, national currencies with limited convertibility are likely to be threatened.

### # Significance

- **Lower the cost of currency maintenance** while allowing real-time payments to be made without the need for interbank settlement.
- **Cost of printing, transporting, and storing paper currency can be significantly reduced.**
- It will also **reduce the public harm caused by the use of private virtual currency.**
- It will **allow users to execute domestic and cross-border transactions** without the involvement of a third party or a bank.
- It has the **potential to deliver major benefits**, such as less reliance on currency, increased seigniorage owing to lower transaction costs, and lower settlement risk.
- It might also lead to **a more stable, reliable, trustworthy, regulated, and legal tender-based payment method.**

### # Issues

- **Problem in RBI's Scrutiny:** The scope of CBDCs, the underlying technology, the validation procedure, and the distribution architecture.
- **Legal adjustments will be required**, as the present provisions of RBI Act were designed with cash in a physical form in mind.
- **Amendments required:** Coinage Act, the Foreign Exchange Management Act (FEMA), and the Information Technology Act.
- Another source of concern is the **sudden flight of money from a bank during a period of stress.**

### # Recent Developments

- **El Salvador:** The world's first country to accept Bitcoin as legal cash.
- **The United Kingdom:** Looking into the possibility of establishing a central bank digital currency (Bitcoin).
- **China:** Testing its official digital money, dubbed "Digital Currency Electronic Payment, DC/EP" unofficially, in 2020.
- **After digital currencies were used in frauds, the RBI banned banks and other regulated entities from supporting crypto transactions in April 2018.** The restriction was **declared unlawful by the Supreme Court in March 2020.**

### # Way Forward

- India will be able to **empower its citizens by allowing them to freely use the digital rupee** in our ever-expanding digital economy and breaking free from an obsolete banking system.
- **Policymakers must properly assess the potential of the Digital Rupee in India**, taking into account its influence on the macroeconomy and liquidity, banking systems, and money markets.

## Money Supply and Monetary Aggregates

### Money Market


- A group of financial organisations that deal in short-term securities, loans, gold, and foreign currency.
- Trades in financial assets with maturities ranging from one day to one year.
- Commercial banks are the **primary money lenders**
- Incharge: RBI.



### # Components of Money Market in India


Organised Sector	Unorganised Sector
<ul style="list-style-type: none"> <li>• Call and Notice Money Market</li> <li>• Treasury Bills Market</li> <li>• Commercial Bills Market</li> <li>• Market for Certificate of Deposits (CDs)</li> <li>• Market for Commercial Papers (CPs)</li> <li>• Repo Market</li> <li>• Money Market Mutual Funds (MMMFs)</li> <li>• Discount and Finance House of India (DFHI)</li> </ul>	<ul style="list-style-type: none"> <li>• Indigenous Bankers</li> <li>• Money Lenders</li> <li>• Unregulated Non-Bank Financial Intermediaries (Chit Funds, Nidhi's and Loan Companies)</li> <li>• Finance Brokers</li> </ul>

### Organised Sector

Call and Notice Money Market	<ul style="list-style-type: none"> <li>• Deals with One-day loans, aka. call loans or call money, are a type of short-term loan.</li> <li>• Banks, both lending and borrowing, are the main participants.</li> </ul>	
Treasury Bills Market	<ul style="list-style-type: none"> <li>• <b>Short term liability</b> of the Central Government.</li> <li>• <b>2 types</b> <ul style="list-style-type: none"> <li>○ <b>Ordinary Treasury Bills:</b> issued to provide investment outlets to state governments, semi-government departments, and other entities.</li> <li>○ <b>Ad hoc Treasury Bills:</b> issued to provide investment outlets to :               <ul style="list-style-type: none"> <li>■ state governments,</li> <li>■ semi-government departments,</li> <li>■ And other entities.</li> <li>■ Freely tradable &amp; can be sold to the general public or to banks.</li> </ul> </li> </ul> </li> <li>• Treasury bills are <b>issued by the government whenever funds are required</b> (issued for not more than 12 months).</li> </ul>	
Commercial Bills Market	<ul style="list-style-type: none"> <li>• <b>Firms in the business</b> : issue these certificates.</li> <li>• <b>Goal:</b> To compensate the seller while the buyer delays payment.</li> <li>• The discount rate on invoices is the interest rate charged.</li> </ul>	
Market for Certificate of	<ul style="list-style-type: none"> <li>• <b>Introduced by the RBI in 1989.</b></li> <li>• Issued by a bank or other entity that accepts short-term deposits.</li> </ul>	

<b>Deposits(CDs)</b>	<ul style="list-style-type: none"> <li>• <b>Similar to term deposits</b>, except they can be traded in the short-term money market.</li> <li>• Commercial banks are not allowed to issue CDs.</li> <li>• <b>Only 6</b> Financial institutions - <b>IDBI, IFCI, ICICI, SIDBI, EXIM and Indian Reconstruction Bank of India.</b></li> </ul>
<b>Market for Commercial Papers(CPs)</b>	<ul style="list-style-type: none"> <li>• <b>Introduced in India in 1990.</b></li> <li>• CP is a tool used by corporations to raise short-term cash.</li> <li>• A listed business with at least Rs 5 crore in working capital can issue CPs.</li> <li>• Other requirements include a <b>CRISIL P2 or ICRA A2 rating every 6 months.</b></li> </ul>
<b>Repo Market</b>	<ul style="list-style-type: none"> <li>• <b>A money market instrument.</b></li> <li>• Holders sell securities to an investor with the commitment to repurchase them at a predetermined pace.</li> <li>• Securities are purchased with a simultaneous promise to resell at a <b>predetermined rate</b> in a <b>reverse repo transaction.</b></li> <li>• Repo market instruments               <ul style="list-style-type: none"> <li>○ <b>Government securities,</b></li> <li>○ <b>treasury bills,</b></li> <li>○ <b>State Government securities,</b></li> <li>○ <b>PSEs bonds</b></li> <li>○ <b>Private corporate securities.</b></li> </ul> </li> </ul>
<b>Money Market Mutual Funds(MMMFs)</b>	<ul style="list-style-type: none"> <li>• <b>Similar to mutual funds</b> but in the short term.</li> <li>• <b>Introduced by the RBI in 1992.</b></li> <li>• Banks, public financial institutions, and private sector institutions : permitted to establish MMMFs.</li> </ul>
<b>Discount and Finance House of India(DFHI)</b>	<ul style="list-style-type: none"> <li>• <b>Set up by the RBI in 1988.</b></li> <li>• Development of the money market and provision of liquidity for money market instruments.</li> </ul>

### # Unorganised Sector

<b>Money Lenders</b>	<ul style="list-style-type: none"> <li>• Constitute <b>India's most localised money market</b> and operate in the most exploitative manner.</li> <li>• <b>Person-to-person loan</b> with some form of collateral.</li> </ul>	
<b>Unregulated Non-Bank Financial Intermediaries</b>	<ul style="list-style-type: none"> <li>• <b>Organizations</b> : Although it provides bank-related financial services, it lacks banking licensing.</li> <li>• <b>Chit Funds</b> :               <ul style="list-style-type: none"> <li>○ popular type of savings institutions.</li> <li>○ Refers to a group of people agreeing to contribute a specified amount over time in installments.</li> </ul> </li> </ul>	

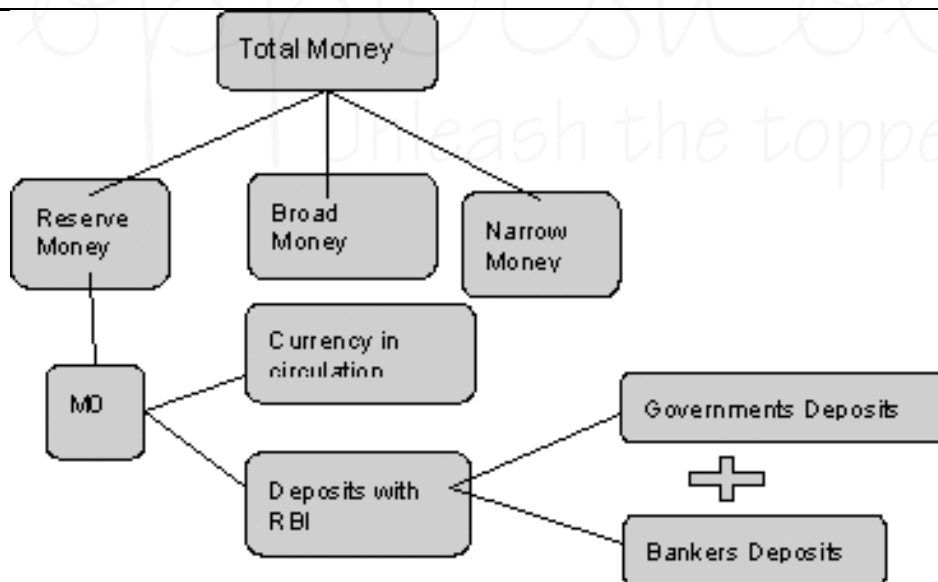
- Under the **Chit Funds Act of 1982**, the separate State government manages, conducts, and regulates the funds.
- **Nidhi companies :**
  - Regulated by The **Ministry of Corporate Affairs under Companies Act, 1956**.
  - A class of NBFCs, RBI can issue directives for them.
  - Deals with their **shareholder-members only**.
  - **Exempted** from the core **provisions of the RBI Act**.

## Money Supply



- Amount of money in circulation in a given economy at any given time.
- **Except** for the State Treasury, Central Bank, and Commercial Banks, it is the total stock of money held by people, which includes individuals, businesses, the government, and its constituent bodies.
- **System of notes issued and adopted** by a country determines the amount of money available in that country.
  - For instance, India adopted the Minimum Reserve System in 1957.
  - **RBI** : To maintain a **minimum reserve of Rs.200 Crores**; consisting of :
    - **Gold** (the value of gold should not be less than Rs.115 Crores).
    - **Foreign securities**.

**Note:** Bank money is considered as secondary money whereas cash money is k/a high powered money.



## Money Multiplier

- It calculates **how much money banks can create** in the form of deposits for every unit of money they maintain as reserves.
- It is **Broad money (M3) ÷ Reserve Money (M0)**.
- When Reserve money rises, Broad money rises with it.
- It explains **how a little initial deposit leads to a larger overall growth** in the money supply.
- It shows the **extent to which changes in the quantity of deposits affect the money supply**.



## Monetary Aggregates



- **M1 = Currency with the public + Demand deposits with the Commercial Banks + Other deposits with the RBI.**
- **M2 = M1 + Post Office Savings Bank Deposits.**
- **M3 = M1 + Time Deposits with the commercial banks.**
- **M4 = M3 + Total Post Office Deposits (excluding NSCs).**

- **Narrow Money (M1) = Currency with the public + Demand Deposits of public in Banks**
- When a third component i.e. Post office Savings Deposits is also added to M1, it becomes M2.
- **Broad Money (M3) = M1 + Time deposits with the banking system.**

