Sem-2: DSC-2 (ECOGCOR02T)
Sem-2: GE Course-2(ECOHGEC02T)

Different Concepts associated with measurement of money supply.

At present in India money consists of coins, paper currency and deposit money. Coins are examples of metallic money whereas currency notes are pieces of papers that have no intrinsic values of their own. The remaining one, i.e, deposit money is not like coins and currency notes that can be passed from one hand to other. The demand deposits of banks on which cheques can be drawn are treated as money. The Reserve bank of India calculates the four concepts of Money supply in India. They are called Monetary Aggregates or Money Stock Measures. They are

M1 (Narrow Money)

The money held by the public consists of two parts and are very liquid they are

Currency held by the public and demand deposit held by the public with banks.

$$M1 = C + DD + OD$$

Where C is the currency held by the Public

DD is the demand deposit

OD other deposits

Other deposits are the deposits held by the Government . They may include demand deposits of quasi Governmnt like IDBI foreign Central banks, IMF etc. Empirically they are very small(less than 1%) and can be ignored

The next item is M2 which may be defined as

$M2 = M1 +$ Post office Savings deposit

Narrow money is the most liquid part of the money supply because the demand deposits can be withdrawn anytime during the banking hours.

The next item is M3 which is broad money.

$M3 = M1 +$ Time deposits with banking system

The next item is M4 which is defined as

$M4 = M3 +$ All deposits with Post Office savings banks (but excluding National Savings certificates)

Narrow definition of money includes M1 which is most liquid whweras Broad Money includes time deposits M3

References

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RBI website