

**People hold money for three reasons**

1. The Transaction motive- Money is used as a medium of exchange. So people hold money for transactions of day to day needs.
2. The Speculation motive- Suppose that the rate of interest is now 6%, but you expect it to rise to 10% shortly. So if you think interest rates are unusually low and likely to rise, you might hold money rather than buying bonds at the low current interest rate.
3. The Precautionary motive- People hold some money for unforeseen events like sickness, accident, etc.

**Time Value of Money**

Rupee today is more valuable	Money has time value as a Rupee today will have greater purchasing power than after a year.
Impact of Inflation	A rising price level may erode the purchasing power of money.

**Component of Reserve Money/Monetary base of RBI/High Powered Money ( $M_0$ ) \***

The total liability of the RBI is called the monetary base or high powered money.

It consists of Currency in Circulation + Bankers' Deposits with RBI + Other Deposits with RBI

**Narrow Money ( $M_1$ ) \***

Currency with the Public + Demand Deposits with Banks + Other Deposits with RBI

Currency with the **Public** = Currency in Circulation minus Cash with Banks.

 **$M_2$  \***

$M_1$  + Post Office Saving Bank Deposits

**Component of Money Stock (RBI) or Broad Money ( $M_3$ ) \***

Broad Money ( $M_3$ ) = Narrow Money ( $M_1$ ) + Time Deposits with Banks

SCRA-2012

Following are some components of money supply in India :

1. Currency with the public
2. Aggregate demand deposits with 'banks
3. Aggregate time deposits with banks
4. 'Other' deposits with the Reserve Bank of India

Which of the aforesaid items are components of narrow money ( $M_1$ ) in India?

(a) 1, 2 and 3 (b) 2 and 4 only (c) **1, 2 and 4** (d) 1 and 4 only

IAS Prelims 2002

Consider the following:

1. Currency with the public
2. Demand deposits with banks
3. Time deposits with banks

Which of these are included in Broad Money ( $M_3$ ) in India?

(a) 1 and 2 (b) 1 and 3 (c) 2 and 3 (d) **1, 2 and 3**

IAS Prelims 1997

The sum of which of the following constitutes Broad Money in India ?

- I. Currency with the Public
- II. Demand deposits with banks
- III. Time deposits with banks
- IV. Other deposits with RBI

Choose the correct answer using the codes given below :

(a) I and II (b) I, II and III (c) **I, II, III and IV** (d) I, II and IV