Answer to the Question No.1

Money

A medium of exchange that is centralized, generally accepted, recognized, and facilitates transactions of goods and services, is known as money.

- Money is a medium of exchange for various goods and services in an economy.
- The money system varies with the governments and countries.
- Different countries have different currencies.
- The central authority is responsible for monitoring the monetary system.
- There are many forms of money, and cryptocurrency is the newest addition to the forms of money and can be internationally exchanged.

The money came into existence to overcome the drawbacks of the barter system. Earlier, people use to exchange goods and services as a form of commerce. This often led to many disadvantages, one of which was the double coincidence of wants. To solve this problem, a standard medium of exchange, money, was introduced.

Functions of Money

Medium of exchange:

Money is the generally accepted medium of exchange that is used to make all the transactions. Ex- payments of goods, payment of tax, etc.

Money acts as a medium of exchange as it's generally accepted.On the payment of money, purchase of goods and services can be made i.e. goods and services are exchanged for money. Money bifurcates buying and selling activities separately so it facilitates the exchange transactions.

Measure of value:

Money expresses the value of every service as well as goods. Therefore, it is a common denomination. Money is a common measure of value so it is possible to determine the rate of exchange between various goods and services purchased by the people. Exchange value of commodity can be expressed in terms of money.

Store of value:

Money acts as a store of value. Money being generally acceptable and its value being more or less stable, it is ideal for use as a store of value. Being non-perishable and also comparatively stable in value, the value of other assets can be stored in the form of money. Property can be sold and its value can be held in money and converted into other assets as and when necessary. It means that money is capable of being stored and transferring the purchasing power from today to the future. Ex: Using the money in a savings account to buy new furniture.

Standard or Deferred payment:

Money is also inevitably used as the unit in terms of which all future or deferred payments are stated. Future transactions can be carried on in terms of money. The loans, which are taken at present, can be repaid in money in the future. The value of the future payments is regulated by money. Money is considered the standard for future payments. Ex- The payment of the electricity bill on the upcoming due date.

Transfer of value:

Value of any asset can be transferred from one person to another or to any institution or to any place by transferring money. The transfer of money can take place irrespective of places, time and circumstances. Transfer of purchasing power, which is necessary in commerce and other transactions, has become available because of money.

Liquidity: Money is the most liquid asset of the economy. Ex: Credit cards, debit cards, cash.

<u>Answer to the Question No.2</u>

Demand for Money

The demand for money is affected by several factors, including the level of income, interest rates, and inflation as well as uncertainty about the future. The way in which these factors affect money demand is usually explained in terms of the three motives for demanding money: the **transactions**, the **precautionary**, and the **speculative** motives.

Transactions motive:

The transactions motive for demanding money arises from the fact that most transactions involve an exchange of money. Because it is necessary to have money available for transactions, money will be demanded.

Precautionary motive:

People often demand money as a precaution against an uncertain future. Unexpected expenses, such as medical or car repair bills, often require immediate payment.

Speculative motive:

Money, like other stores of value, is an asset. The demand for an asset depends on both its **rate of return** and its **opportunity cost.** Typically, money holdings provide *no* rate of return and often depreciate in value due to inflation. The opportunity cost of holding money is the interest rate that can be earned by lending or investing one's money holdings.

Classical theory:

Classical economist emphasized the transaction demand for money because according to classical economist money acts as a medium for exchange of goods and services in Fisher's equation of Exchange.

$MV=PT$ where

M= The total quantity or supply of money

V= Velocity of money

P= The price level

T= Total amount of goods and services

The right hand side of the equation PT represents the demand for money, which in turn depends Upon the value of transactions to be undertaken in the economy. And MV represents the supply of money which is given and is in equilibrium equals the demand for money. Thus the equation becomes.

$Md=PT$,

$Ms=MV$

In the end the classical theory of demand for money may be summarized as under:

1. Money acts as a medium of exchange
2. Velocity of money is constant
3. The people hold a constant fraction of their nominal income for transaction and precaution motives.
4. Quantity of money demanded is directly related to the price levels.

Answer to the Question No.4

Money Supply

The money supply is the total amount of money—cash, coins, and balances in bank accounts—in circulation.The money supply is commonly defined to be a group of safe assets that households and businesses can use to make payments or to hold as short-term investments. Money supply means total amount of money available in an economy. In other words, money supply refers to the volume of money held by the people in the country for transactions or for settlement of debts.

There are several standard measures of the money supply, including the monetary base, M1, and M2.

- The monetary base: the sum of currency in circulation and reserve balances (deposits held by banks and other depository institutions in their accounts at the Federal Reserve).
- M1: the sum of currency held by the public and transaction deposits at depository institutions (which are financial institutions that obtain their funds mainly through deposits from the public, such as commercial banks, savings and loan associations, savings banks, and credit unions).
- M2: M1 plus savings deposits, small-denomination time deposits (those issued in amounts of less than $100,000), and retail money market mutual fund shares. Data on monetary aggregates are reported in the Federal Reserve's H.3 statistical release ("Aggregate Reserves of Depository Institutions and the Monetary Base") and H.6 statistical release ("Money Stock Measures").

Over some periods, measures of the money supply have exhibited fairly close relationships with important economic variables such as nominal gross domestic product (GDP) and the price level. Based partly on these relationships, some economists—Milton Friedman being the most famous example—have argued that the money supply provides important information about the near-term course for the economy and determines the level of prices and inflation in the long run. Central banks, including the Federal Reserve, have at times used measures of the money supply as an important guide in the conduct of monetary policy.

Over recent decades, however, the relationships between various measures of the money supply and variables such as GDP growth and inflation in the United States have been quite unstable. As a result, the importance of the money supply as a guide for the conduct of monetary policy in the United States has diminished over time. The Federal Open Market Committee, the monetary policymaking body of the Federal Reserve System, still regularly reviews money supply data in conducting monetary policy, but money supply figures are just part of a wide array of financial and economic data that policymakers review.

<u>Answer to the Question No. 6</u>

Cost-Push Inflation:

Aggregate supply is the total volume of goods and services produced by an economy at a given price level. When there is a decrease in the aggregate supply of goods and services stemming from an increase in the cost of production, we have cost-push inflation. Cost-push inflation basically means that prices have been "pushed up" by increases in costs of any of the four factors of production (labor, capital, land or entrepreneurship) when companies are already running at full production capacity. With higher production costs and productivity maximized, companies cannot maintain profit margins by producing the same amounts of goods and services.

Demand-Pull Inflation:

Demand-pull inflation occurs when there is an increase in aggregate demand, categorized by the four sections of the macro economy: households, businesses, governments and foreign buyers. When these four sectors concurrently want to purchase more output than the economy can produce, they compete to purchase limited amounts of goods and services. Buyers in essence "bid prices up", again cause inflation. This excessive demand, also referred to as "too much money chasing too few goods", usually occurs in an expanding economy.

Labour Market:

A labour market is the place where workers and employees interact with each other. In the labour market, employers compete to hire the best, and the workers compete for the best satisfying job. A labour market in an economy functions with demand and supply of labour. In this market, labour demand is the firm's demand for labour and supply is the worker's supply of labour. The supply and demand of labour in the market is influenced by changes in the bargaining power.

Financial Investment

Investment made in buying financial instruments such as new shares, bonds, securities, etc. is considered as a Financial Investment. However, the money used for purchasing existing financial instruments such as old bonds, old shares, etc., cannot be considered as financial investment. It is a mere transfer of a financial asset from one individual to another. In financial investment, money invested for buying of new shares and bonds as well as debentures have a positive impact on employment level, production and economic growth.