

BALU PUBLICATIONS

**For
Civil Services**

Short Notes

INDIAN ECONOMY

Rs:50/-

Economy Articles To Prepare For Civil Services Online

Section 1 → Evolution of Money & Banking, Financial institutions India

- [Evolution of Money](#)
- [Evolution of Banking in India](#)
- [Financial Institutions in India](#)
- [Financial intermediaries – Banks in India](#)
- [Non Banking Financial Intermediaries \(NBFI\)](#)

Section 2 → GDP Calculation, Monetary Policy, Inflation, Governance Finance

- [GDP & GDP Calculation](#)
- [Monetary Policy & Inflation](#)
- [Urjit Patel Committee & Tools to measure inflation](#)
- [Government Finance & Budget](#)
- Revenue Part of Indian Budget (Coming Soon)
- Capital Part of Indian Budget (Coming Soon)
- [Capital Gains Tax, Transfer Pricing & GAAR](#)
- [Balance of Payment – Current Account & Capital account](#)

Section 3 → Capital Market, Bonds, Equities, FII, P Notes, ADR, GDR

- [Capital Market – Types of Bonds](#)
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- [Capital market – FII, QFI, FDI & P Notes](#)
- [Mutual Funds, Hedge Funds, ECB, IDR, ADR & GDR](#)

Evolution of Money

Barter System

Positives

- Simplest in form
- No foreign Exchange regime
- No concentration of wealth

Negatives

- Double coincidence of wants was must
- No division of labor
- Exchange of perishable goods
- No saving capital
- No circular flow of income
- No Divisibility or Fungibility of same value

Function of Money

Primary Function

Measure of Value + Medium of Exchange as it is –

- Readily acceptable
- Durable, Portable, Recognizable
- Divisible, Fungible
- Hard to Counterfeit

Derivative Function

- Store of Value – Savings → Investment
- Transfer of Value – Same value from Kashmir to Kanyakumari
- Deferred Payment – Time value of Money → Credit card, EMI etc.

- In barter system, it was difficult to determine how much each of the labour should earn from the total production
- But money's primary function viz. measure of value makes it possible to determine the share of individual worker in the total production and pay him accordingly
- Helps in Distribution of National income

- Anyone who provides any of the four factors of production viz. land, labour, capital, entrepreneurship; will earn money as rent, wage, interest or profit
- Less chances of exploitation (compared to the Barter system, feudal system, Zamindari system)
- Thus, money helps in distribution of income among various factors of production

Evolution of Money



Commodity Money

- Intrinsic value of commodity was used to make exchanges viz.
- USA → Tobacco, Corn, Iron nails were used to make exchanges
- Aztec → Cocoa beans were used to make exchanges
- India → Cowries were used to make exchanges
- Fiji → Whale teeth were used to make exchanges
- Problems of commodity money
 - Face Value was not same throughout region
 - Face value was not same for outsiders
 - Generally commodity used were perishable in nature → could cause inflation
 - Generally bulky to carry
 - No fungibility or divisibility → No division of labour

Metallic Money

- Started by Kings & Traders with uniformity & precision
- Forged in Gold (Muhur) → High value
- Forged in Silver (Rupaiya) → Moderate value
- Forged in Copper/ Bronze (Dam, Paisa) → For day to day purchases

Positives of Metallic Money

- Intrinsic value + Non-perishable
- Divisible, Fungible
- Foreign trade possible (without exchange rate)
- Production was low → Prices stable → No Hyperinflation

Negatives of Metallic Money

- Mansabdari payment system → 50% in Gold + 25% in Silver + 25% in Copper
- Copper Dam Debasement → 20 gm copper in Akbar time in a coin | 13 gm copper in Aurangzeb time
- People became vary of coin values → Again started barter system
- Tax collection & revenue system started declining
- People started using East India company coins
- Bulky to carry
- Smuggling for intrinsic value to other Kingdoms (Main reason for debasement)

Paper Money (Fiat Money)

- Fiat Money → Used by the command of the government
- Examples include → US dollar, Indian Rupee, Euro, Yen, Yuan
- Legally recognized to settle all debts & payments within territorial jurisdiction
- Initially Fiat Money was pegged to Gold viz.
 - 1 US \$ → 22 grains Gold
 - 1 British Pound → 113 grain gold
 - 1 Pound → $113/22$ → 8 US \$
 - But during world war 2 this system collapsed
- After WW2 Fiat Money was formatted as Paper standard viz.
 - Central Bank free to print currency without gold backing
 - Exchange Rates → Fixed Exchange rate + Floating Exchange rate + Managed Exchange rate

What is not Fiat Money?

- Money without government legal backing
- Superstores plastic coins, cards & coupons

- Shares, Bonds, Debentures, G-Sec, T-bill
- DD, Cheques, Credit Card, ATM card
- Bitcoin & other Digital currency

Problems of Fiat Money

- Debasement → Over printing → Hyper inflation
- Still Bulky to carry + Theft + Counterfeit
- Change problem → Rounding off problem
- Imagine a petrol pump not returning 60 paise per customer due to change problem
- For Every 1 lakh customers pump is earning 60,000 rupees

India → Paper Standard

Government

RBI

- RBI Act 1934 → Notes Printed from Rs. 2 to 1000
- Rs. 1 note + All coins
- Coinage Act 2011 Rs. 1 note to hold Financial Secretary bilingual signature

Bank Money

- Backed by Central bank of the country viz.
- Cheque, Bank Draft, NEFT, RTGS
- Credit card, Debit cards, Visa Card, Master card, Rupay card
- Benefits of Bank money
 - Spot payment + Deferred payment + Time saving
 - Easy to transfer over long distance
 - Exact amount can be transferred (No change problem)
 - Hard to counterfeit
 - Can be freezed if card is stolen via. KYC norms
 - Legally recognized for high value payment

Crypto Currency / Virtual Currency → Bitcoin

- Major reasons for birth of crypto currency
- Subprime crisis → US QE → Increased dollar supply → Dollar’s purchasing power decreased
- Banks charge fees on online transfer, credit card, ATM
- Anarchist groups (a person who believes that government and laws are not necessary)
- Birth of Bitcoin
- Started in 2009 by Satoshi Nakomoto
- 1 BTC → 10⁸ Satoshi – Virtual money
- Reward distribution for solving algorithm + Exchange by Fiat money + Selling goods & services

RTGS	NEFT	BITCOIN
<ul style="list-style-type: none"> • Retail → 2L to 5L • Corporate → 5L 	Less than 2 L	No ceiling
Processing fees	Processing fees	None
Instant Transfer	Transfer within 1 hour cycle	Transfer upto 10 minutes
Specific Timing & days	Specific Timing & days	None → Can do 24/7
Central monitoring by RBI	Central monitoring by RBI	None
Can recover account via. password	Can recover account via. password	Once gone then gone forever
Requires Account number + IFSC code for transfers	Requires Account number + IFSC code for transfers	Only public address of wallet is required
KYC norms applies	KYC norms applies	None

RBI Stand on Decentralised Digital Currency / Virtual Currency (Bitcoin)

- No central bank has authorized Bitcoins
- Not Traded through BSE, NSE or Commodity exchange (SEBI, FMC)
- No Forex dealers under FEMA can convert Fiat currency into Bitcoin or vice versa

End of Preview.

Rest of the book can be read @

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