

PAPER MONEY

I. Paper Money: Paper money refers to that paper notes which are issued by the central bank or the government and promises to pay the written amount. According to prof. Crowther, paper money passes through four stages:

KINDS OF PAPER MONEY

(1) **Representative paper money:** When gold or silver of equal value of paper money is kept in reserve fund at the time of issue of paper money then it is called representative paper money.

Merits of Representative paper money

- (i) The chances of inflation in representative paper money are almost negligible.
- (ii) Valuable metal are saved from being used.
- (iii) Since these are issued against reserve fund, so public trust on it.

Demerits of representative paper money

- (i) Under this system valuable metals are kept as dead stock.
- (ii) This system lacks flexibility.
- (iii) This system is not suitable for poor or under development countries

ADVANTAGE S OF PAPER MONEY

(1)Economical :

Paper is required instead of metal for manufacturing paper money. So the manufacturing expense are required.

(2)Portability :

Since it is light in weight, so paper money having any value is easy for transportation.

(3) **Elasticity in money supply:** According to the need and demand the quantity or amount of paper money can be changes, but in case of metallic money it is not possible because metal in a emergency when the government.

(4) Assistant in emergency: In case of emergency when the government needs additional money and the amount of gold and silver is not available in sufficient quantity then the government circulates paper money.

DISADVANTAGES OF PAPER MONEY

(1) **Danger of inflation:** The biggest disadvantages of paper money is that there is always a fear of inflation. Whenever the government faces economic problems, in order to solve them additional paper money is introduced.

(2) Lack of internal value: From the public point of view paper money is nothing but a faith on the government. Its internal value is zero and it is trust . worthy only when people have faith on the government .

(3) Perishable: Paper money is not durable. There are maximum chances that it gets worn, torn and if they perish badly then a lot of problems can be created during their exchange.

(4) Speculation: Since the value of paper money is not stable and fluctuation in its value takes place on international base, therefore it encourages speculation.