SUPPLY
OF
MONEY

Meaning of supply of money : Supply of money means the total amount money available in the economy on a particular time. But Supply of money includes only that stock of money which is with the public of a country. It is to be noted that government of the country and financial institutions are the suppliers of money. So stock of money available with the suppliers is not included in it.

DEFINITION OF SUPPLEY OF MONEY

(1) **Under traditional or narrow approach** : This is the most traditional and narrow definition of money. According to this approach, supply of money means cash with the people and that portion of cash deposited with the commercial banks, which is demand deposit.

SUPPLY OF MONEY (M1)=Currency held by public (Currency + Coins) +Demand deposit in commercial banks.

This approach of supply of money is supposed to be a narrow approach.

(2) **Under Broad Approach** : While defining the supply of money under this approach, prof. Freidman said, "The supply of money in a specific time is that money in dollars which is with the public or in the form of time deposits with commercial banks," Here any other currency for respective country can be taken in place of dollar. Thus according to this definition medium of exchange and store money, both are considered as the importance of money. This is known as 'M_2' in America and 'M_3' in Britain and India. Thus M_3 =Currency + Demand deposits with commercial Banks + Time deposit.

MEASURES & COMPONENTS OF MONEY SUPPLY IN INDIA

(1) **M1 Measurement** : According to this measurement M1= Currency with public (c)+ Demand Deposit (DD) + other deposit with RBI (OD)

Here, C= currency with public (Paper money and coins)

DD=Demand Deposit, deposits with the commercial bank, which can be withdrawn by cheques.

OD=other deposits, which includes:

(i) Time deposits of Public sector Financial institutions such as IDBI with RBI

(ii) Demand Deposit of foreign central banks and foreign government with RBI

(iii) Demand Deposits of International Financial Institutions such as IMF and World Bank.

(2) **M_2 Measurement** : As compared of M_1,M_3 is also broader approach of the supply of money. In this approach the savings with the post office are also included along with all the components of M_1. Thus $M_2 = M_1$ +Savings deposits with post office saving banks.

(3) **M_3 Measurement = As compared of M1, M3 is also broader approach of the supply of money. In this approach along with all the components of M1 the term deposit of people with the commercial banks are included. M3=M_1 + term deposits with commercial banks.**

(4) M4 Measurement: This is the broadcast concept of the supply of money. In this approach along with all the components of M3 all the deposits with the post offices (excluding NSC) are included.

M4=M3 + Total deposits with post office (excluding NSC) = M3 + all deposits with post office-NSC

Thus among the above concepts M1, and M2 are the narrow approach of the supply of money, where as M3 and M4 are broader concept but there is less liquidity of money in this concept also. M3 has a great importance among the above four measurement. On the bases of this measurement Reserve Bank publishes the data. In these days Reserve Bank gives priority to M3 measurement, because it includes currency with the public and deposits with bank, which helps to prepare the credit budget for credit policy.