

GOA UNIVERSITY SYLLABUS

**RAJHAUNS**

**A TEXTBOOK OF**

# **ECONOMICS**

**INDIAN MONETARY  
FINANCIAL SYSTEM**

**SEMESTER V**

**B.Com**

Dr. Deepali Karmali Churi

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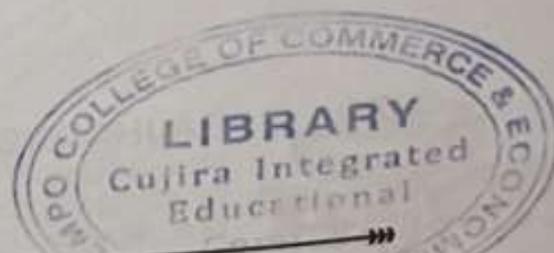
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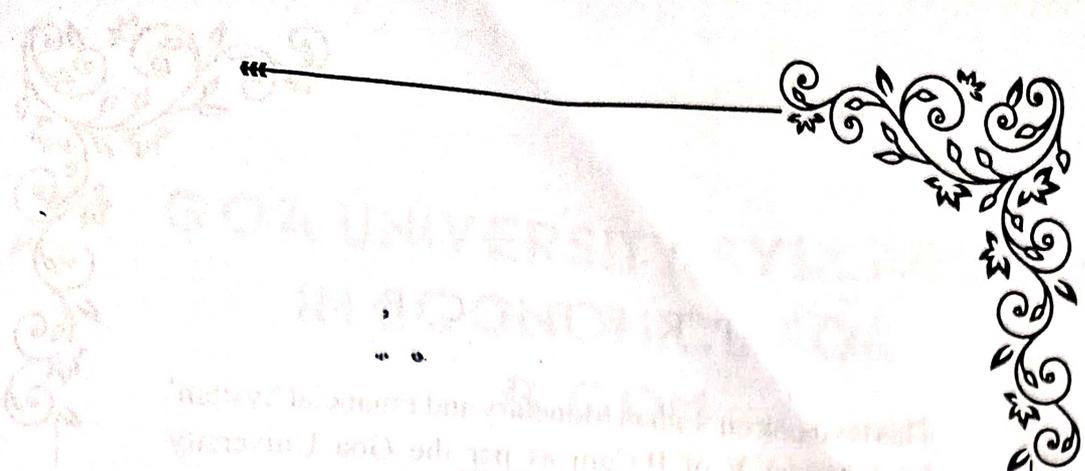
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# CONTENTS

1. Money and Money Supply ..... 1
2. Financial System and its Components .....13
3. Financial Markets.....44
4. Financial Institutions and Services..... 75



## UNIT 1

### Money and Money Supply

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*In this chapter we shall learn*

- *Origin and Components of Money*
- *RBI indices of Money Supply*
- *RBI instruments to regulate Money Supply*

#### **Introduction**

Money is a pre-requisite for the smooth functioning of economic and financial transactions in a modern economy. The modern-day money helped the producers and consumers all over the world deal with the limitations of the barter system. Under the barter system the consumers had to be satisfied with limited goods because the direct exchange of goods involved only a few goods. The barter system compelled consumers to consume only locally produced goods as trade or rather exchange of goods with distant places was nearly impossible. The evolution of money in its present form helped both producers and consumers by expanding trade and markets across the world. Robertson has described in his book 'Money', that with the help of money in an economy one can see what people want and in how much quantity they want it. This helps in deciding what is to be produced, how much is to be produced and how the limited resources of the economy should be optimally utilized. Hence, the scope of money has been extended over to consumption, production, distribution and public finance. Money is an important tool for producers, consumers and the government as it has helped in channelizing the process of production, consumption, distribution and social welfare.

#### **Definition and Functions of Money**

Money is basically an asset in an economy which is used by people to buy and sell goods and services. Money has been broadly defined by economists as something that serves as a medium of exchange, a unit of accounting and a store of value. Money has been widely accepted as a medium of exchange which helps to expedite all kinds of monetary and economic transactions. In other words, 'Money refers to a value which is widely accepted as a medium of exchange, as a legal tender for repayment of debt, as a standard of value, as a unit of accounting measure and as a way and means to save or store purchasing power.' Some researchers are of the opinion