

② Paper Money! — Paper money is that paper notes which are issued by the central bank or the govt and promises to pay the govt and written amount.

According to prof crowther, paper money passes through four stages! —

- (i) First stage! — A certificate was given to the depositors against their deposits, which they would get back after a span of time by showing that certificate.
- (ii) Second stage! — Some bank got the right by the govt to issue paper notes to their depositor.
- (iii) Third Stage! — Some bank got the right to print money than their deposits.
- (iv) Fourth Stage! — It is the present stage of note issue. The central bank of the country has the right to issue note.

Types of Paper Money:-

(a) representative paper money.

(b) convertible paper money.

(c) Inconvertible paper money.

(d) Fiat Money.

(a) Representative paper money:- when gold or silver of equal value of the paper money is kept in reserve fund at the time of issue of paper money then it is called representative paper money. In 1925 Millon Young commission had recommended this for India.

Merits of representative paper money:

- (i) The chance of inflation are almost negligible.
- (ii) valuable metals are saved from being used.
- (iii) It is issued against reserve fund, so public trust on it.

Demerits of representative paper money.

- (i) Valuable metals are kept as dead stock.
- (ii) This lack flexibility.
- (iii) This system is not suitable for poor or under developed country.

(b) Convertible paper money — when paper

money is issued in a country, then the public is free to convert it to standard coins at any time, then it is called convertible paper money. But 100 percent fund of gold & silver is not necessary for issuing this type of money.

Merits of Convertible paper money —

- (i) Valuable metals are saved from being used.
- (ii) Public has full faith.
- (iii) This system is flexible.
- (iv) Foreign Payments becomes easy.

Demerits of convertible paper money:-

(i) There is a fear of inflation.

(c) Inconvertible paper money:- It is

basically that money which govt does not make promise to exchange with standard coins or valuable metals. Govt Securities, bonds, Treasury bills and Foreign Reserves are kept as reserve fund.

Merits of inconvertible paper money:-

(i) This system is practical.

(ii) This system is flexible.

(iii) It is economic as minimum metallic fund is kept in reserve.

Demerits of inconvertible paper money.

(i) There is fear of inflation.

(ii) This system lacks public faith.