

Relative Importance of Measures of Money Supply

Reserve Bank gives more importance to M_1 & M_2 but more emphasis is laid on M_3 because in M_2 & M_3 the deposit with post office is also included and it is assumed that the amount deposited with post office is the nominal portion of total deposits of the economy, and there is no control of RBI on the deposits with post offices.

According to new measurement of Reserve Bank Reserve Money:

Teacher's Signature

Currency in circulation + Bankers deposit
 with RBI + other deposits with the
 RBI = Net RBI credit to Govt +
 RBI credit to commercial sector +
 RBI's claim on Bank + RBI's net
 Foreign assets + Govt Currency liabilities
 to public - RBI's net non monetary
 liabilities.

Factors affecting Money Supply

- (a) Monetary Policy of the central Bank
- (b) Commercial Banks Capacity and policy of credit creation.
- (c) Govt. Fiscal Policy.
- (d) Public Desire.

(a) Monetary Policy of the central Bank:-

It plays an important role in
 the supply of money. If the central
 bank adopts cheap monetary policy
 which means lower rate of interest
 on loan then the supply will
 increase and expensive policy in
 which the interest will be high
 then the supply will decrease.

U) Commercial banks capacity and policy of credit creation:-

Bank creates credit policy on the bases of their deposits. If no. of credits increase then the supply of money increase and if the credit decrease then the supply of money also decreases. Apart from this expansion or contraction of credit also depends on the CRR of Reserve bank.

(C) Govt Fiscal Policy:-

If the govt followse if it follows surplus budget then the supply decreases.

(d) Public desire:-

If the public desires to keep deposits with commercil bank then the supply of money increases and when the public desire to keep maximum currency with themselves then the supply decreases.