

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 comes 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.

15

Date _____
Page _____

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 Forex 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 lack public faith.

(14) Page _____
(D) Fast Money:-

It is called emergency money. This type of inconvertible money is issued in limited quantity at the time of emergency without any reserve fund.

Advantages of paper money

- (i) Paper is required instead of metal so, it is economical in manufacturing and fear of depreciation is also nil.
- (ii) It is light weight so it can be carried any where.
- (iii) The quantity and amount can be changed according to the need and demand.
- (iv) In the time of need the govt can circulate additional money even the amount of gold and silver are not in sufficient quantity.

Disadvantages of Paper Money

- i) There is fear of inflation as the govt can issue additional money in the time of emergency.

(ii) The value of paper money is just the public faith in the govt. otherwise the value is zero.

(iii) The paper money is not durable, it may get torn or worn. when they get perished then difficulties arises in the terms of exchange.

(iv) As the value of the paper money fluctuates on international bases, it gives rise to speculations.