

## Chapter-4

### Supply of Money

### High Powered Money

Supply of Money:- It means the total amount of Money available in the economy on a particular time, but it include only that stock of money which is with the public of a Country not with the suppliers that is the govt and the financial institutions of the country.

### Definitions of Supply of Money:-

There are three opinions regarding this.

- (a) Under traditional or narrow approach
- (b) Under broad approach.
- (c) Gurley & Shaw approach.

### (a) Under traditional or narrow approach:-

Supply of Money ( $M_1$ ) = Currency held by public + Demand Deposit in commercial banks.

Teacher's Signature



Above implies that cash with the public and the cash deposited in bank which can be withdrawn by cheque is the supply money.

(b) Under Broad Approach:-

$$\underline{M_3} = M_1 + \text{Time deposits (in Britain)}$$

$$\underline{M_2} = M_1 + \text{Time deposits (in America)}$$

Prof. friedman had given the above theory according to him. "The supply of money in a specific is that money which is with the public or in the form of time deposits with commercial banks."

According to this definition medium of exchange and store of money both are important. In America it is called  $M_2$  and in Britain it is called  $M_2$ .

(c) Gurley and Shaw Approach:-

$$M_3 = M_1 + \text{Time deposits} + \text{other deposits}$$

It is the broadest approach given by Gurley and Shaw. According to them, in the supply of money the above stated  $M_3$  or  $M_2$  the deposit of the saving banks and other deposits are considered.