

SUBJECT = ME & IB

UNIT I – MONEY (PART – VII)

MERITS OF MONEY

Paper money is the most advanced form of money. It fulfils almost all the qualities of good money, as it is economical, easily recognizable, portable and storable.

Merits of Paper Money:

1. Cheap and Economical -

Normally paper money is much easier to issue. Practically it cost nothing to government. Currency notes, therefore, are the cheapest media of exchange. If a country uses paper money, it need not spend anything on the purchase of gold or minting coins. The loss which a country suffers from the wear and tear of metallic money is also avoided. Printing of paper currency requires certain special types of paper, ink, and printing technology. These things no doubt are costly but overall printing cost is quite low.

Under paper standard, the central bank of any country has not to keep gold or silver for issuing of the paper notes. It is thus, most economical form of monetary standard.

2. Convenience -

Paper money is convenient to transfer and carry. It can be easily kept in pocket. Further it can also be readily converted into cheques, drafts, etc.

3. Copying -

The design of paper money is very difficult to copy. Further special type of paper and ink is used in paper money that makes it quite impossible to copy. Even if it copied by some fake means then it can be checked by electronic machines.

4. Homogeneous (Uniform quality) -

The paper money has another advantage that it has uniform quality and the holder does not bother for possession of new or old money. It is, therefore, a very suitable medium of exchange.

5. Elastic Supply -

Paper money due to its elasticity is very useful for government. Supply of money can be increased or decreased according to the needs of the economy. For example - At a peak level of business activity, the demand of money increases and the monetary authorities can easily issue paper money to fulfil the demand of money. Its quantity can be increased or decreased at the will of the currency authority. Thus paper money can better meet the requirements of trade and industry.

6. Advantage of Unlimited Legal Tender -

Paper money is unlimited tender i.e. any amount of payment or of debt can be paid in it. It can be used to discharge all kinds of business obligations.

7. Precious Metals Saving -

Use of paper money results the saving of precious metals of the country. The metals can be used for other useful purposes.

8. Ease of Counting -

Paper money is much easier to count than metallic money. The counting of large amounts in metal form is inconvenient and difficult. On the other hand counting of paper money is easy, convenient and requires little time.

9. Recognizable -

The paper money is easily recognizable. There is no inconvenience of testing the exactness of the money material.

10. Useful in Emergency -

The paper money can be used in emergency like war and floods. It is also helpful to meet any financial crises. The government can meet the expenses by printing notes in shorter time. But metallic money takes long time period for mining, refining and minting the metals.

In recent years in India there has been great inflation. By this means our Government has been able to spend hundreds of crores of rupees on various ambitious programmes of development. Hence within limits the issue of paper money comes very handy to the government at the time of dire need.

11. Stable in Value -

The metallic money depreciates due to wear and tear. The paper money helps to control such loss. The depreciation means decrease in the value of coins due to usage.

12. Easily Portable -

Paper money is portable i.e. it can easily be transferred from one place to another as compared to metallic money. The cost of transferring paper money is quite low and it can be transferred in a very short time period.

13. Advantageous to Banks -

Paper money is of very great advantage to the banks. They can keep their cash reserves against liabilities in this form, for currency notes are full legal tender.

14. Promotes economic growth -

Under paper standard, the monetary authority is free to determine its monetary policy. It therefore regulates the money supply in such a way that productive resources of the country are utilized to their maximum and greater economic growth achieved.

15. Internal price stability -

Under paper standard, the monetary authority can maintain stability in internal price level by making necessary expansion or contraction in money supply according to the economic conditions.

16. Regulation of exchange rates -

Under paper standard, the international exchange rates are fixed by purchasing power of the respective countries. Paper currency is an effective and automatic regulator of exchange rates between the countries.