

Q. Discuss the merits and demerits of paper money.

Ans.

Paper money is the most advanced form of money. It fulfills almost all the qualities of good money, as it is economical, easily recognizable, portable and storable. Paper money can be classified into representative, convertible and fiat money. Now a days almost majority of paper currency is fiat money. Different authors have defined paper money in the following words —

Prof. Hanson: "Paper money means the paper instruments such as bank notes, cheques, bills of exchange and other forms that take the place of money and act as currency or circulating medium."

Prof. M. Green: "Paper money means documents with a value started on them but having no value in them."

* Merits of paper money: —

(A) Cheap and economical → Normally paper money is much easier to issue. Practically it cost nothing to government. Printing of paper currency is requires certain special types of paper, ink, and printing technology. These things no doubt are costly but overall printing cost is quite low.

(B) 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.

(C) 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.

(D) Homogeneity → The paper money has another advantage that it has uniform quality and the holder does not bother for possession of new or old money.

(E) 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.

(F) Advantage of unlimited legal tender → Paper money is unlimited tender i.e. any amount of payment or a debt can be paid in it. It can be used to discharge all kinds of business obligations.

(H) Precious metal saving → Use of paper money is ~~unlimited~~ results the saving of precious metals of the country. The metal can be used for other useful purposes.

(I) 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.

(J) Recognizable → The paper money is easily recognizable. There is no inconvenience of telling the exactness of the money material.

(K) Useful in emergency → The paper money can be used in emergency life war and floods. 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.

(L) 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.

(M) 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 very short time period.

* DEMERITS :

(A) Demeritization → The demerits of paper money is that the holder may have to suffer loss. The paper money is fiat money. It is issued by fiat (order) of the government. In case of the government cancels the currency notes the holder has to bear full loss.

(B) Exchange rate instability → The value of paper money is unstable and is subject to fluctuations in the exchange rates. The fluctuations in the exchange rate market also produce serious effect on the price level in the economy.

(C) Monetary mismanagement → Purchasing power of paper money is an ever changing process. This means that its face value remains same but its purchasing power may decline due to monetary mismanagement.

(D) Short life → Although the paper ~~money~~ currency is not affected by wear and tear but it can be ~~damaged~~ damaged due to fire or water.

(1) What is money. Explain its importance?

Ans

There are number of functions of money that can be seen easily in the business world. But before discussing the function of money, money has been defined by different authors in different ways, which is discussed as under -

- According to Walker - "Money is that what money does."
- "Kent - "Anything which is widely used as a medium of exchange and standard value is money."

* Importance of Money: -> The importance of money can be realized from the fact that almost all the economic, social

and other activities are carried and completed through the use of money. The importance of money is increasing day by day with the rapid changes in economic development and other overhead requirements of the human. Money is the master key for the solution of all economic difficulties. However, the main importance of money is discussed as under -

(a) Production -> money has made mass production possible. The large scale production is necessary to meet the growing demand of the consumers. The mass production is possible with division of labour that depends upon money.

(b) Consumption -> money helps the consumer to spend his income in such a way so that he can get maximum satisfaction. money has generalized the purchasing powers.

(e) Excess Issuance -> The printing of paper money is quite easy, so in time of need the government can issue notes more than the requirement. As a result supply of money increases that causes inflation in the economy.

(f) Restricted Acceptability -> One of the demerits of paper money is that it has limited acceptance. Its acceptance is limited within the boundaries of a country. It cannot be used to make payments to other countries.

(g) Inconvenience of small denominators -> Paper issue is not for small monetary denominators such as 1/10, 25, 50 Paise and even for Rs. 1, 2 and 5. In this case metallic money gets preference over paper money.

(h) Troubling Balance of payments -> Over issue of money results in decrease of value of money and also causes inflation. Due to which price of imported goods increases because they are to be paid by devalued currency for foreign currency. It results in unfavorable balance of payment.

(c) Distribution → At present the production process is not simple. The production is made through the various factors of production like land, labour, capital and organization.

(d) Exchange → Another thing that can elaborate the importance of money in better ways is the exchange of value through money. The exchange of goods and services is done through money. When goods are exchanged for goods even then money is used as a measure value.

(e) Revenue → Public finance means rising of money through taxes by the government. The amount of taxes and other dues are collected in the form of money.

(f) Industries → The industrial progress is linked with money, which is the life blood of a business. Promoting of big companies, arrangement of loans to expand the business and the establishment of a stock exchange markets depends upon money.

(g) Banks → Money is the basis of credit in the banking system of the country. The economic development and material progress of a nation depends upon the sound banking and credit system. So, the money is necessary for the financial progress.

(h) Trade → Money helps both local and foreign trade. Money is a means of making payments for the goods and services purchased. Money is the basis of money market and capital market.

(i) Government → Money is the important to the government. The taxes ~~and~~ fee and penalty are collected in money.

(j) Wages → The labours wages are paid in money.