

$$\text{Currency (M)} = C + DD + OD$$

Currency includes coins and currency notes that is cash in hand, Demand drafts and other demands of public.

⇒ Currency is also called fiat money.

\* Fiat money or currency is defined as the money which, under law, must be accepted for all debts.

\*  $M_1 \rightarrow m_1$  includes only that currency which is held outside bank that means cash in hand.

\* It means all reserves of bank is not included in  $m_1$ .

\*  $M_2 = m_1 +$  Saving deposits with post office saving banks.

It means the currency held by the public and also deposit in post office saving banks is comes under  $m_2$ .

\*  $M_3 = M_1 + \text{Net time deposits with commercial banks.}$

It means  $M_3$  includes the currency held by public and deposits in all commercial banks.

\*  $M_4 = M_3 + \text{Total deposits with post office savings.}$

\*  $M_3$  is called broad money.

\* Liquidity less towards  $M_1$  to  $M_4$ .