FACULTY OF JURIDICAL SCIENCES

Lecture-9

CLASSIFICATION OF MONEY

Broadly, money can be classified as:

(i) Full bodied money

(ii) Representative Full bodied money

(iii) Credit money

(i) Full bodied Money:

Any unit of money, whose face value and intrinsic value are equal, is known as full bodied money, i.e. Money Value = Commodity Value. For example, during the British period, one rupee coin was made of silver and its value as money was same as its value as a commodity.

(ii) Representative Full-bodied Money:

It refers to money which is usually made of paper. The value of representative full-bodied money is much higher than its value as a commodity. It is accepted as money as it can be conveniently used for carrying out transactions.

Such a type of paper money is 100% backed by metallic reserve of gold or silver and is redeemable at the option of the holder. For example, in case of convertible paper receipts, a person can exchange the amount stipulated on the paper receipt for equal value of gold.

Two Kinds of Representative Money:

A. Convertible Paper Money:

It refers to the currency notes which are freely convertible into full-bodied money (gold or silver) at any time at the option of the holder. However, 100% backing of gold or silver is not desired as all the notes in circulation are not simultaneously presented for conversion.

B. Inconvertible Paper Money:

It is that kind of paper money which cannot be convertible into full-bodied money at the option of the holder. However, it circulates and commands value as its issue is regulated by a responsible government. This money does not have any backing of standard coins or bullion. Indian one-rupee note is a good example of inconvertible paper money.

(iii) Credit Money:

Credit money refers to the money whose intrinsic value (as a commodity) is much lower than its face value, i.e. Money Value > Commodity Value. For example, face value of Rs 100 note is Rs 100, but we would get a much lower value if we sell the note as a piece of paper. Credit cards, bank deposits are other examples of credit money.

The various forms of credit money are:

(a) Token coins:

These refer to small coins of various denominations, which are issued to facilitate day-to-day requirements of the people. All Indian coins, like those of Rs 10, 5, 2 or 1, are token coins since their value as money is more than value of metal contained in them.

(b) Representative Token money:

It is 100% backed and is fully redeemable in some commodity such as gold or silver. It is generally in the form of paper and market value of what is actually offered is less than value printed on paper notes.

(c) Circulating promissory notes issued by central bank:

These are currency notes issued by Reserve Bank in India. These include all currency notes of denominations like Rs 1,000, Rs 500, Rs 100, etc. Each promissory note contains the words, "I promise to pay the bearer the sum of Rs………… ", and is signed by the Governor of India. The commodity value of a promissory note is much less than its money value.

(d) Demand Deposits in bank:

Deposits are claims of creditors (depositors) against bank. These deposits can be withdrawn from the bank or transferred from one person to another by issuing a cheque. Such deposits do not have backing in terms of any bullion (gold or silver). The commodity value of a cheque is much lower than its money value. Demand deposits are very convenient for making transactions of huge amounts as they remove the risk of carrying large amounts of cash.