



# 12<sup>th</sup> Economics

Chapter 3: Money and Inflation - GSEB

*Amit Academy*

# INFLATION

Rising Prices of Goods & Services!

## 1. INCREASE IN DEMAND (DEMAND-PULL FACTORS)

1. More Money Supply



2. Higher Public Spending



3. Overpopulation



## 2. INCREASE IN COST OF PRODUCTION (COST-PUSH FACTORS)

1. Higher Wages



2. Expensive Materials



## 3. OTHER REASONS

1. High Taxes



2. Import Price Hike



3. Scarcity of Goods



# DEMAND-PULL INFLATION

Prices Rise Due to Excess Demand



Demand exceeds Supply → Prices Increase

# CAUSES OF INCREASE IN DEMAND FOR GOODS

## 1. INCREASE IN MONEY SUPPLY



- 1 When people have more money, their purchasing power increases.
- 2 This increases demand for goods and services.



## 2. INCREASE IN PUBLIC EXPENDITURE

- 3 When the government spends more on infrastructure and welfare, people's income rises.
- 5 This leads to higher demand.



## 3. OVERPOPULATION

- 6 Increase in population increases demand for essential goods.
- 7 If supply does not increase, prices rise.



# COST-PUSH INFLATION

Also Called Supply Shock Inflation

Prices Rise Due to Higher Production Costs



Increase in Production Costs → Higher Prices

When production costs increase, the prices of goods and services also increase.

# OTHER CAUSES OF INFLATION

## 1. TAXATION POLICY



- 1 An increase in taxes raises the cost of production.
- 2 This leads to a rise in prices.

## 2. INCREASE IN IMPORT PRICES



- 2 Rise in prices of imported goods (like crude oil) increases production and transport costs.

## 3. SCARCITY

- 1 Shortage of raw materials, electricity, or other resources increases prices.
- 5 Long-term scarcity can cause inflation.



# MONEY



According to Marshall, money is anything that is used as a medium of exchange without doubt at any time or place.

## FUNCTIONS OF MONEY

### 1. MEDIUM OF EXCHANGE

- 1 Money is used to buy and sell goods and services.



### 2. STORE OF VALUE

- 2 Money can be saved and used in the future.



### 3. MEASURE OF VALUE

- 3 Money helps to measure and compare the value of goods and services.



# MONEY AS A MEDIUM OF EXCHANGE

Used for Buying and Selling Goods in the Economy



- The most important function of money is to act as a medium of exchange.
- It is generally accepted by everyone for buying and selling goods and services.
- It removes the problem of double coincidence of wants in the barter system.
- It makes exchange easier and more convenient.



**Example:** A farmer sells wheat in the market and gets money.

He can use that money to buy clothes, rice, or other goods whenever he wants.

Thus, money makes trade simple and smooth in an economy.



## MONEY AS A STORE OF VALUE

1

Can be saved and used in the future.



2

In barter, goods were perishable and costly to store.



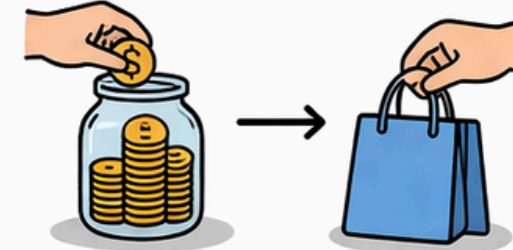
3

Does not spoil and is easy to keep.



4

People can save part of their income and spend it later.



5

Supports credit, loans, and instalment payments.



Thus, money acts as a store of value by preserving purchasing power for future use.

# MONEY AS A MEASURE OF VALUE

Comparing Prices of Goods and Services

- 1 Money acts as a measure of value because it helps to fix the price of goods and services.
- 2 In the barter system, it was difficult to compare the value of different goods.
- 3 Money solves this problem by giving a common value (price) to all goods and services.

Thus, money makes it easy to measure and compare values.

## BARTER SYSTEM



## WITH MONEY



## BARTER SYSTEM

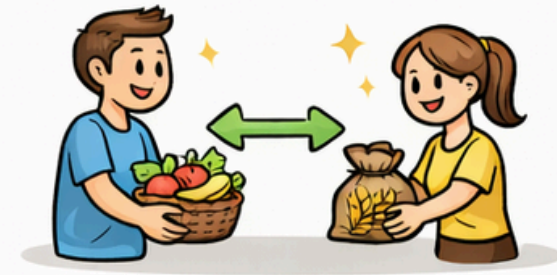
### 1 No Need for Money

- Goods are exchanged directly for other goods.
- It is useful where money is not available.



### 2 Simple System

- It is easy to understand.
- Exchange takes place directly between two persons without money.



Barter system and advantages of barter System.

# LIMITATIONS OF THE BARTER SYSTEM

Difficulties in Direct Exchange Without Money

## 1. LACK OF DOUBLE COINCIDENCE OF WANTS

- Both persons must want each other's goods at the same time.
- This makes exchange difficult.



## 2. DIFFICULTY IN STORING VALUE

- Goods cannot be stored for a long time like money.
- Some goods may spoil.



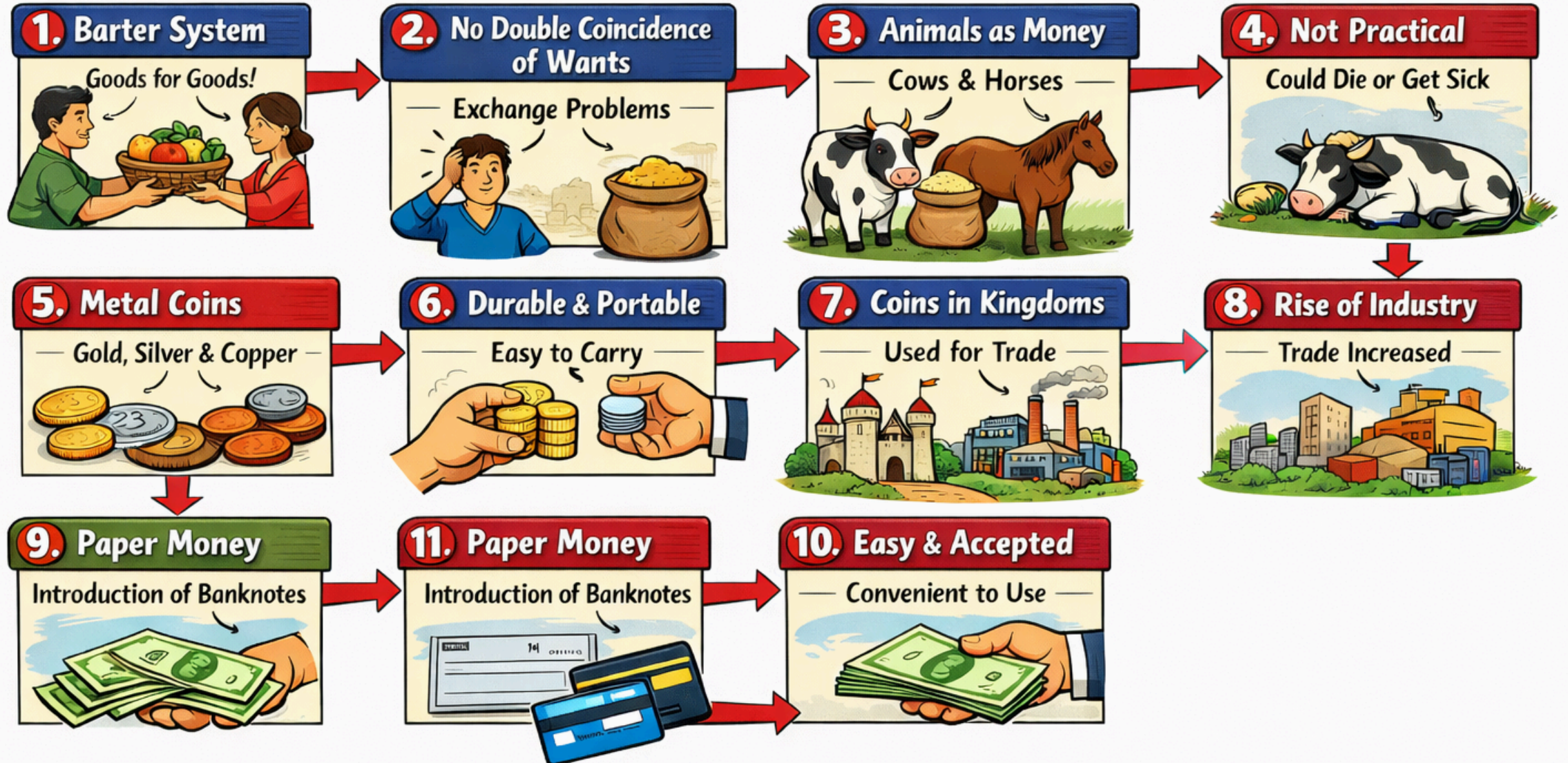
## 3. PROBLEM OF MEASUREMENT OF VALUE

- It is difficult to fix the value of goods.
- There is no common measure to compare different goods.



Therefore, due to these problems, the barter system became limited and less useful.

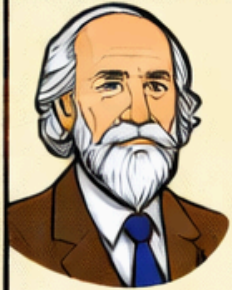
# Short Note on the Origin and Evolution of Money



# Meaning & Types of Money

## Meaning of Money

### 1. According to Alfred Marshall:



“Money is “anything which is generally accepted as a means of payment for goods and services and for the settlement of debts.”

→ It emphasizes the **general acceptability** of money.



### 2. According to D.H. Robertson:



“Money is “anything which is **widely** accepted in payment for goods or in discharge of business obligations.”

→ It highlights that money is accepted for transactions and payments.



# Types of Money

## 1. Commodity Money

Goods like salt, grains, or other useful items used as money.



## 2. Animal Money

Animals like cows and horses were used for exchange in early times.



## 3. Metal Money

Coins made of metals like gold, silver, and copper.



## 4. Paper Money

Currency notes issued by the government.



## 5. Bank Money

Cheques, drafts, and bank deposits used for payments.



## 6. Plastic Money

Credit cards and debit cards used for transactions.



# Suppressed Inflation

It is a situation where demand is more than supply, but prices do not rise because the government controls them.



## Causes:

**1. Government Price Control**

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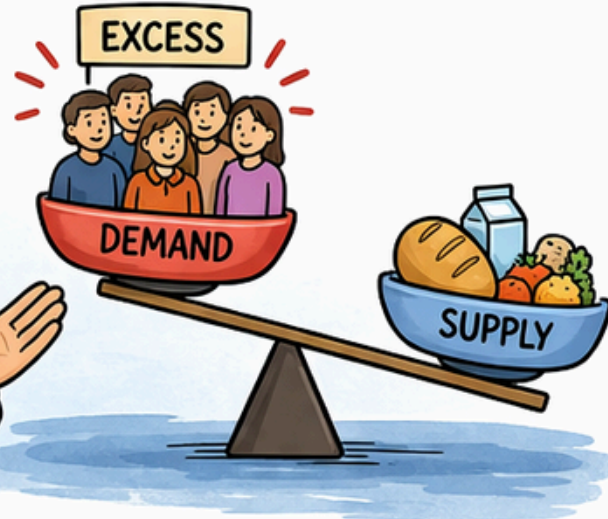
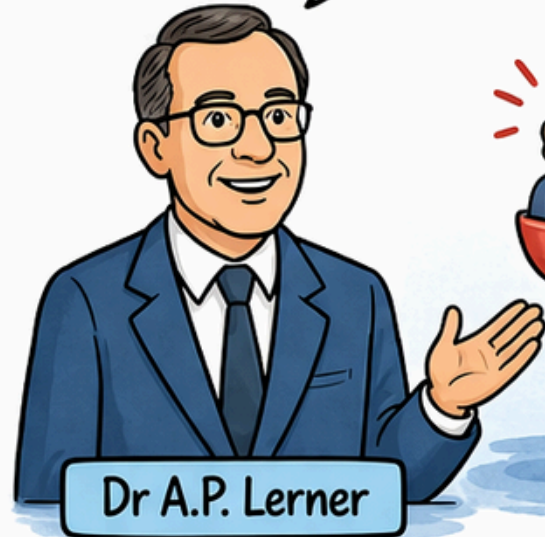
**2. Rationing System**

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# Definitions of Inflation

## 1. Dr A.P. Lerner

"A situation of excess demand over supply of goods is called inflation."



## 2. Prof. A.C. Pigou

"Inflation occurs when monetary income rises faster than real income."

