WELCOME

MONETARY ECONOMICS

Baumol–Tobin model

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Baumol:

**William Baumol presents an inventory model of the demand for money.*

** An approach to establish a firm's optimum cash balance under certainty.*

Theme:

** Opportunity cost.*

** Relationship between transaction demand and income is neither linear nor proportional.*

Formula:

$$K = \sqrt{2by/r}$$

r = rate of interest

b = broken age fee

y = income

Criticisms:

It dosen't reflect real-world uncertainly and variability.

Baumol's model is static.

Tobin:

The combined market value of all the companies on the stock market should be about equal to their replacement costs.

Theme:

** Individuals portfolio holds both money and bonds rather than only one at a time.*

Formula:

$$R=B(r+g)$$

M=money
B= bonds
r= rate of interest
g=expected capital gain/loss

Criticisms:

The model dosen’t account for transaction costs.

Tobin’s model assumes all investors and risk averse.

THANK YOU

BROADLY
DETERMINANTS
ECONOMY
METHODS
TESTABILITY
INEFFICIENCIES
PEANUTS
IMPACTS
OUTPUT
IMPERFECT
PRODUCED
POLICY
MONETARY
STATE
EXUBERANCE
EXAMINES
LARGEST
IMPLICATIONS
PRICE
MONEY
DEMAND
ECONOMICS
FAILURE
ILLUSION
INTERPRET
FINANCIAL
NOMINAL
FRAMEWORK
INSTITUTIONS
AGGREGATE
HISTORY
RETAIL
MODELLING
LEVEL
STABILITY
NET
CONSIDERS
HYPOTHESIZE

MONETARY ECONOMICS

DEMAND FOR MONEY – KEYNESIAN AND MONETARIST THEORY

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Content :

1. Introduction
2. Money
3. Demand for money
4. Theories of demand for money
   a. Keynesian
   b. Monetarist (Milton Friedman)
5. Conclusion
6. Reference

1. Introduction:

- A branch of economics that studies money and its use in an economy.
- It examines theories of money, its functions, and how it can be accepted as a public good.
- It also analyzes the impact of monetary policy, including how it affects interest rates and inflation, and the consequences of central bank actions.

2. Money:

- A word derived from Latin ‘moneta’ the surname of Roman Goddess of Juno
- It is any item or medium of exchange that symbolizes perceived value. As a result, it is accepted by people for the payment of goods and services, as well as the repayment of loan

3. Demand for money:

- Holding money
- Medium of exchange and store of value – by functions
- Scale view, impact of income

  substitution view, relative attractiveness of assets

4. Theories of demand for money:

- ➡ Keynesian approach
- ➡ Monetarist approach (Milton Friedman)

a. Keynesian approach:

- Used a new term "liquidity preference" for the demand for money

Transactions demand for money

Precautionary demand for money

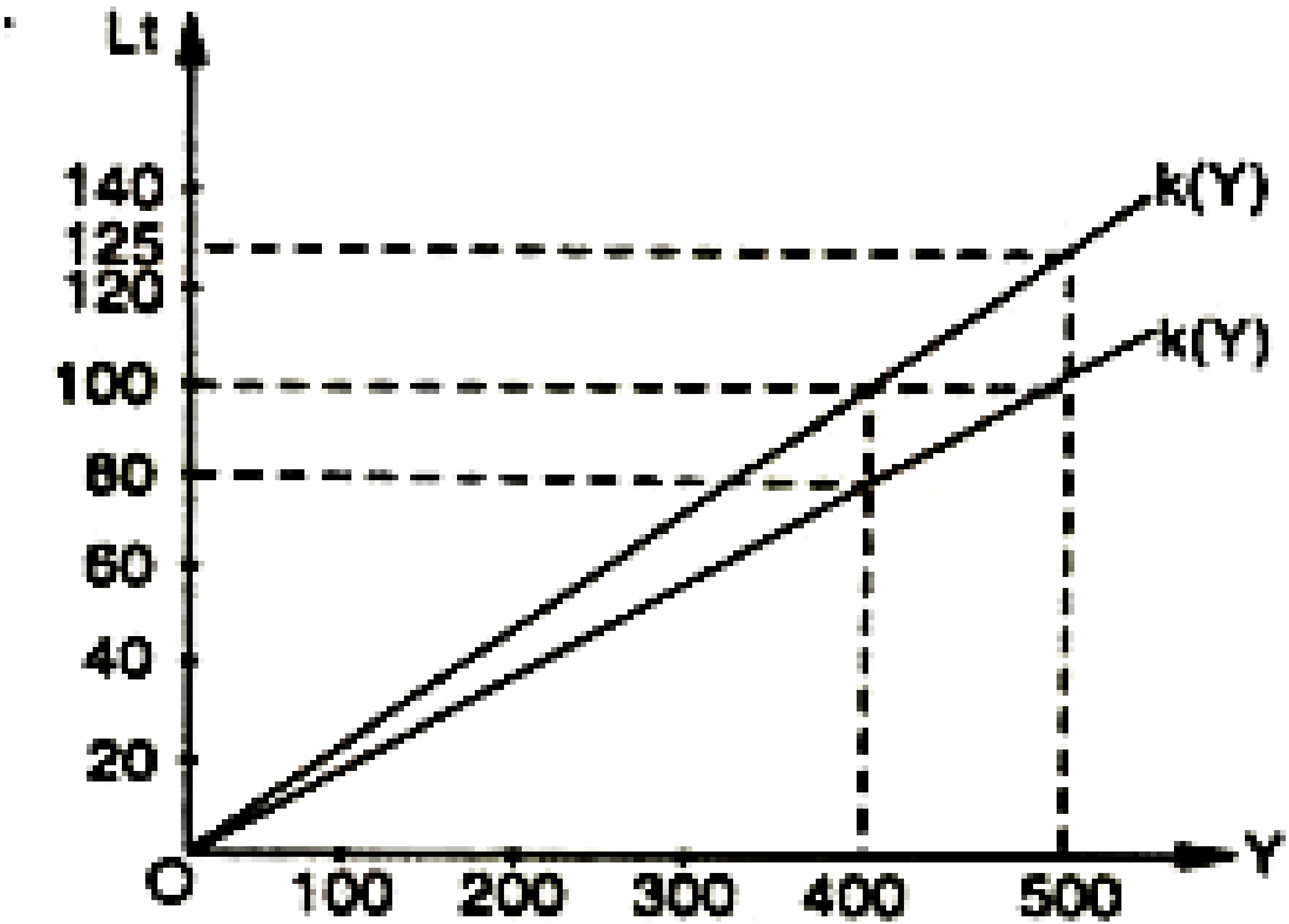
Speculative demand for money

Transactions demand for money:

- Arise from medium of exchange function
- Direct proportional and positive function of the income

$$L_t = kY$$

- Varies directly with the level of income and inversely with the rate of interest



TRANSACTIONS DEMAND
FOR MONEY

Precautionary demand for money:

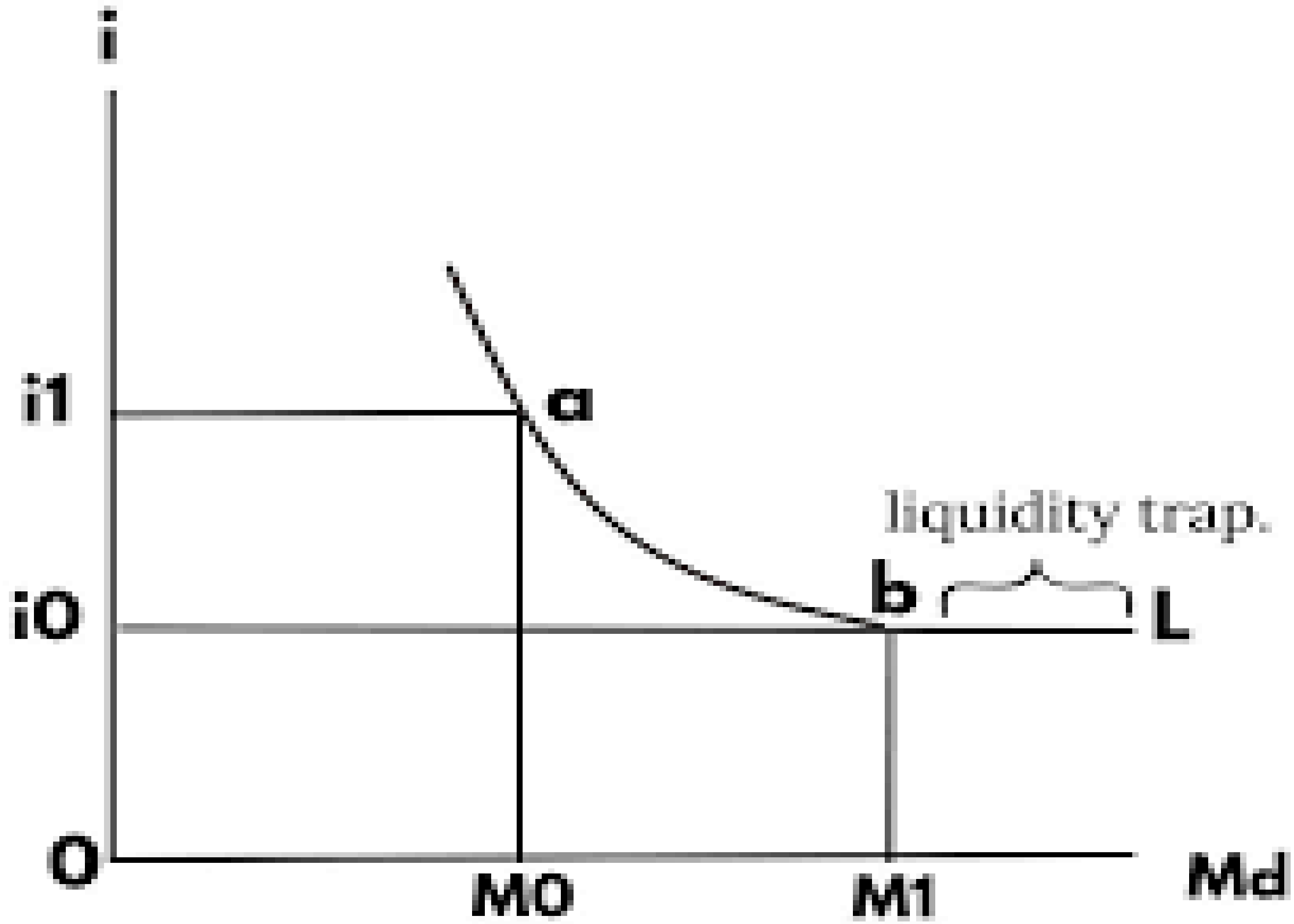
- Desire to provide for contingencies requiring sudden expenditures and for unforeseen opportunities of advantageous purchases.
- Depends upon the level of income, business activities, opportunities for unexpected profitable deals, availability of cash, the cost of holding liquid assets in bank reserves, etc.

Speculative demand for money:

- For securing profit from knowing better than the market what the future will bring forth.
- Bond prices and rate of interest are inversely related to each other.

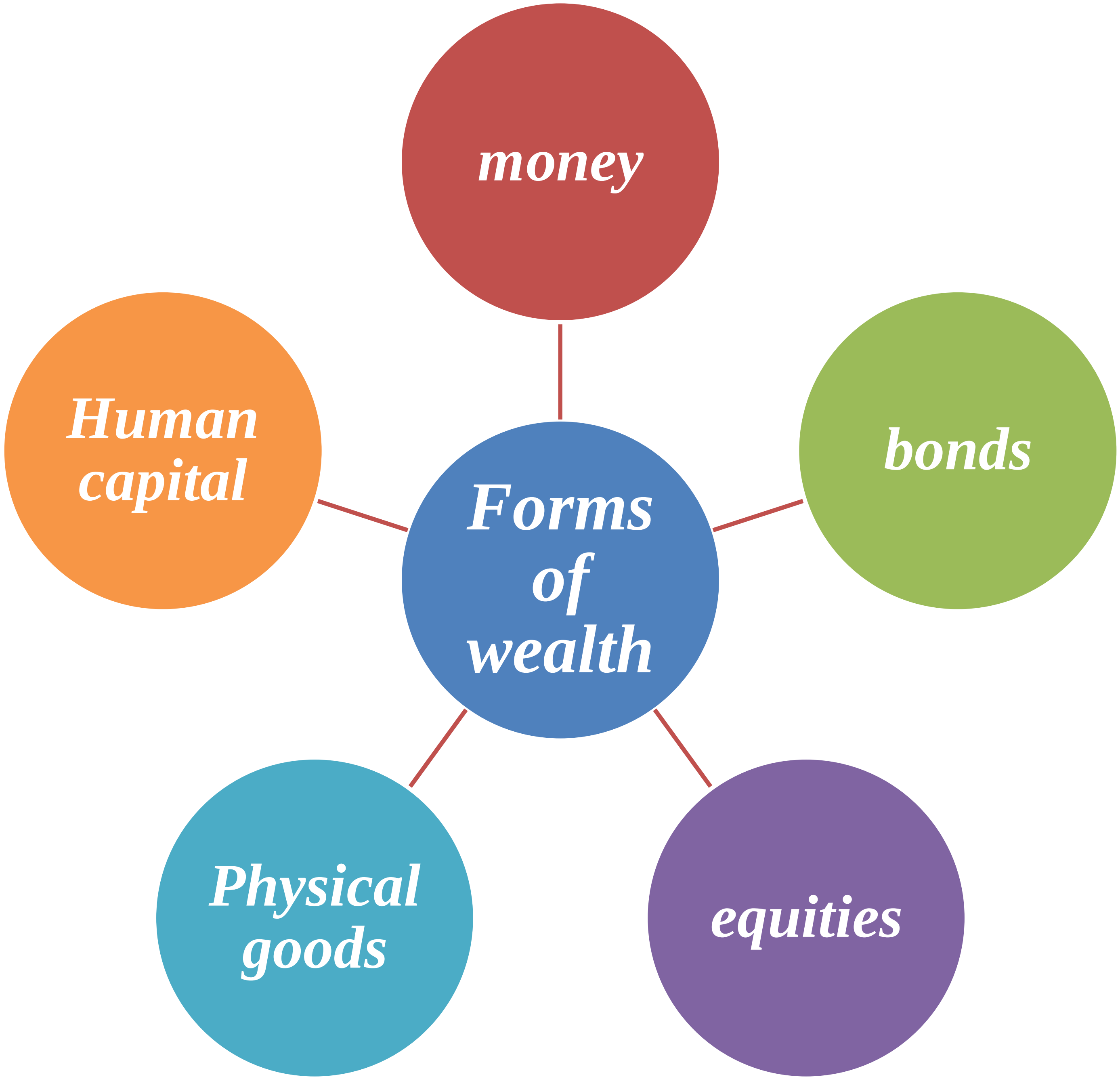
$$L_s = f(r)$$

$$L = f\,(Y,r)$$ ⟺ Total Demand for money


i
i1
a
liquidity trap.
b
i0
L
O
M0
M1
Md

b. Monetarist approach:

- Milton Friedman's theory is capital or wealth theory
- Demand for money is a function of following,
    - Total wealth
    - The division of wealth between human and non-human forms
    - The expected rates of return on money and other assets
    - Other variables


money
Human capital
Forms of wealth
bonds
Physical goods
equities

- Income is, capitalised income and permanent income

$$M/P = f\,(Y,W;\, R_m,\, R_b,\, R_e,\, g_p,\, u)$$

5. Conclusion:

- Monetarist approach is a post-keynesian approach
- Keynesian approach is critisized and developed by Baumol, Tobin and etc,.
- Friedman’s theory is superior than keynes theory.

6. Reference :

- M.L. Jhingan and B.K. Jhingan, “Monetary Economics”, 2019

Thank you

Any Doubt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Seminar

TOPIC : CLASSICAL THEORY

FISHER APPROACH

FISHER APPROACH:

Fisher's Quantity Theory of Money:

American economist Irving Fisher developed this theory in his well-known work entitled 'The Purchasing Power of Money' published in 1911.

Fisher primarily emphasized the role of money as the medium of exchange and ignored the function of money as a store of value.

According to Prof. Fisher;

****Other things remaining unchanged as the quantity of money increases, the price level also increases in direct proportion and value of money decreases and vice-versa.***

Formula:

$$MV=PT$$

M=Money supply

V=Velocity of circulation of money

P=Average price level

T=Total amount of goods and services

Criticisms of Fisher Approach:

- *Assumption of Full Employment*
- *Velocity of Money*
- *Real Output*
- *Narrow Definition of Money*
- *Ignoring Expectations*


THANK YOU

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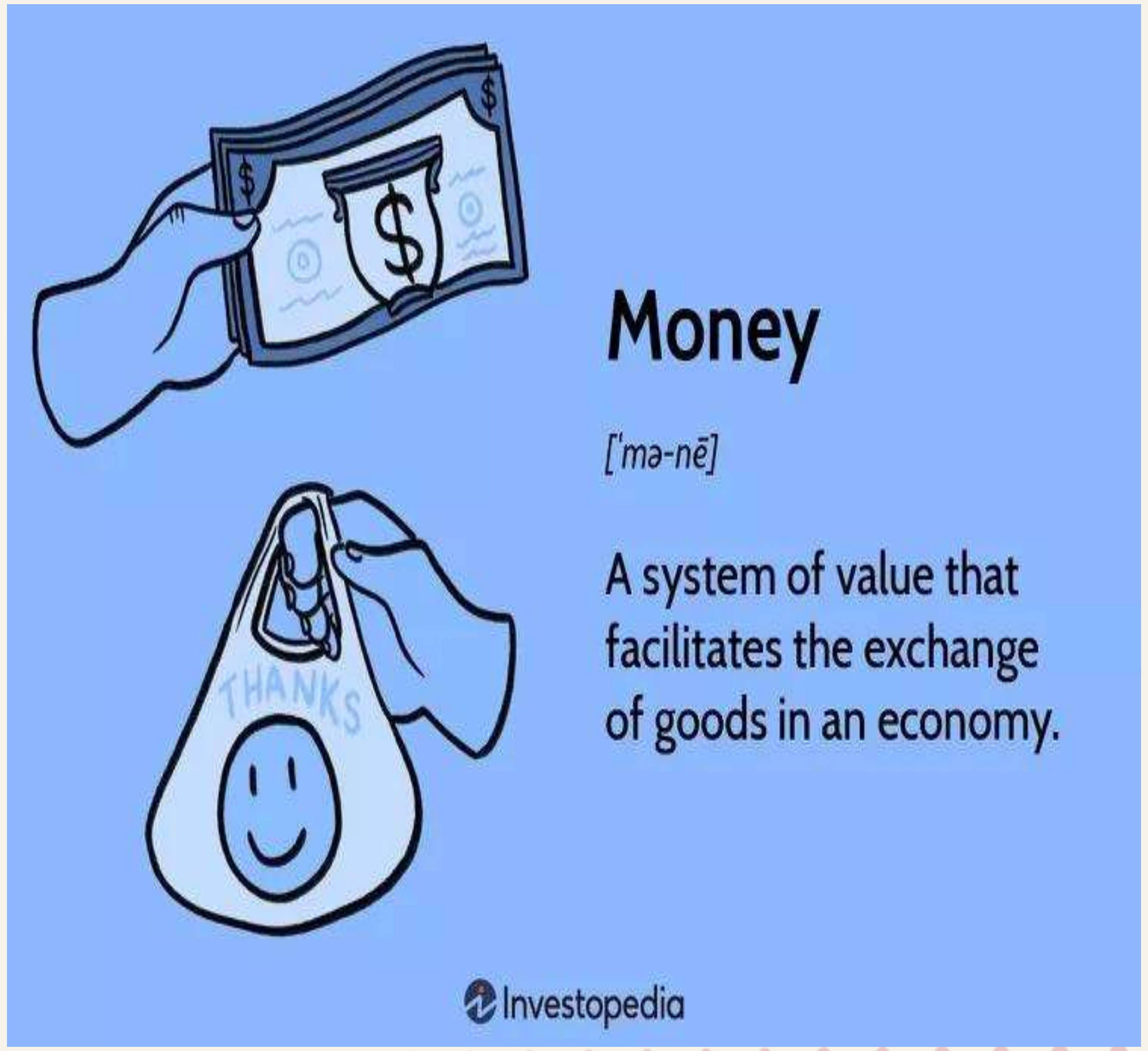
LIOUDITY APPROACH

Bu :Radcliffe-Sauers
And
Gurleu-Shaw

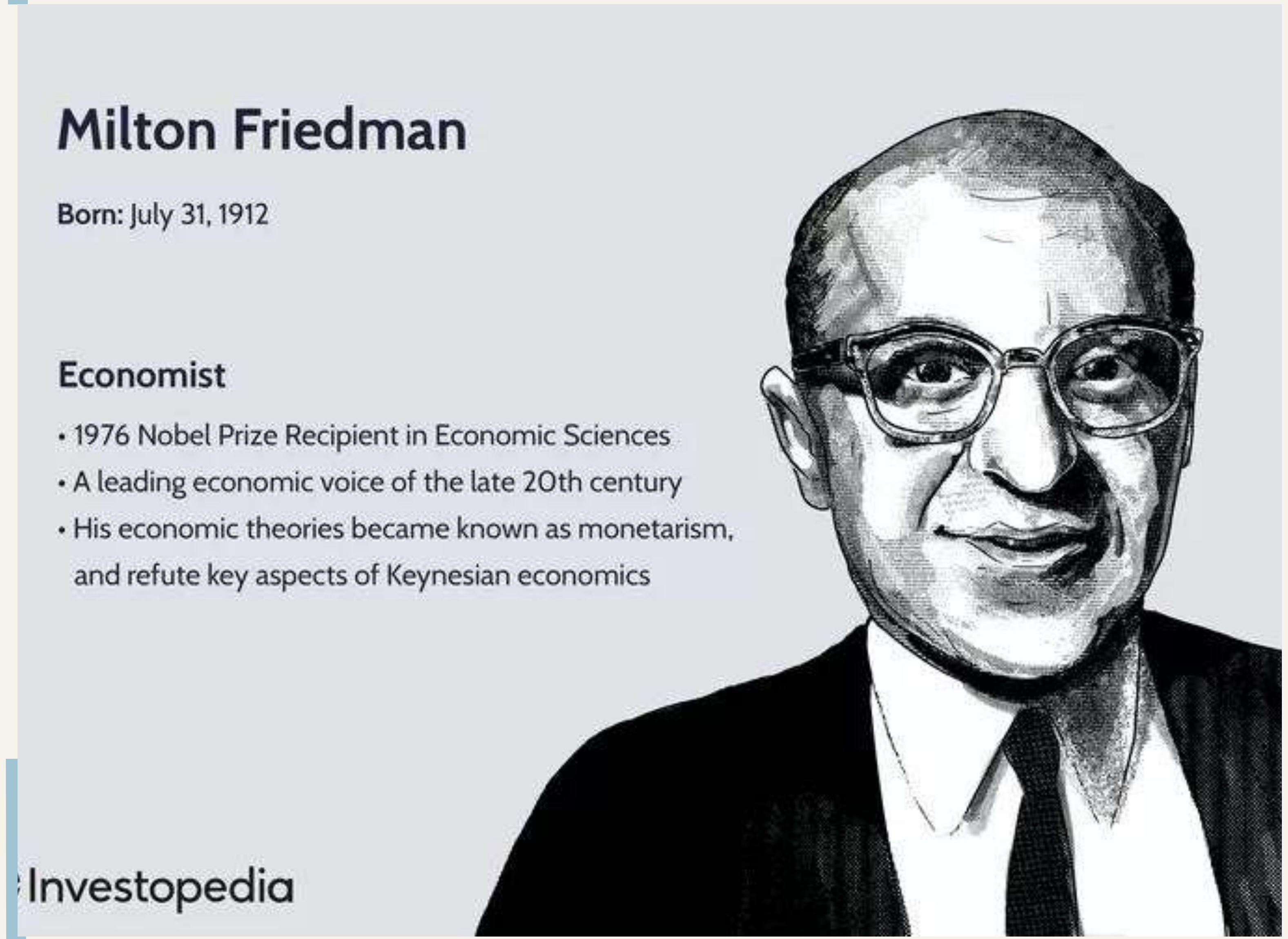
Contents

INTRODUCTION

- Money is a liquid asset used to facilitate transactions of value.
- It is used as a medium of exchange between individuals and entities.
- It's also a store of value and a unit of account that can measure the value of other goods.



Definition



It studies the conduct and effects of monetary policy, including it's impact on interest rates and inflations and the consequences of policy actions by central banks.

LIQUDITY THEORY OF MONEY

- Developed by John Maynard Keynes in 1936, is a key macroeconomics concept that explains how interest rates are determined and how people and investors decide to hold money instead of investing it.
- The theory's main idea is that people prefer to hold assets that are liquid, or can be quickly converted to cash at a low cost, like money.
- When economic conditions are uncertain, such as during a recession, people may want to be more liquid, which increases their liquidity preference.

MOTIVES

- **Transaction Motive**

  The money needed to buy goods and services.

- **Precautionary Motive**

  The need to hold cash to deal with emergencies and unexpected changes.

Speculative Motive

People hold cash to take advantage of future investment opportunities, such as when interest rates or market conditions change.

GURLEY-SHAW

He's One of Modern Economists. Both are the implications of the rapid growth of financial intermediaries in the post-war II period.They were particularly inspired by the work of Raymond Goldsmith which showed that while all financial intermediaries grew rapidly during the first half of the 20th Century.

THEME

- Non-Banking Financial Intermediaries (NBFI)
- Store of Value
- Weighted Sum Of Demand
- Substitution relationship among currency, Demand Deposit, Time Deposit, Saving Bank Deposits.

EXPLANATION

- Gurley and Shaw suggest a liquidity definition of money in which money is regarded as "a weighted sum of currency and demand deposits and substitutes with weights assigned on the basis of the degree of substitutability ranging from one to zero".
- The more imperfect substitute, the less the weight.

CRITICISMS

Gurley and Shaw argue that the assets of non-bank financial intermediaries have increased more rapidly in recent years than the assets of commercial banks and this trend and the role of financial intermediaries have undermined the effectiveness of monetary policy based on the control of money supply created by the banks alone.

RADCLIFFE-SAYER

- He's Also Modern Economists.
- Radcliffe Committee was appointment by British Chancellor of Exchequer in 1957 to inqure into the working of monetary and credit system and to make recommendations.
- The rreport of the committee was published in August 1959.

THEME

- Near money concept.
- Medium of Exchange/Substitutes.
- Note+Bank Deposit (Time deposit.Saving Bank Deposit of Building society et..

EXPLANATION

- The Radcliffe approach during severe inflation is not to restrict the supply of money alone but to strike hard more directly and rapidly at the overall liquidity of spenders.
- A combination of control of bank advances, of capital issues and of consumer credit has been advocated in this connection.

CRITICSMS

- Oversimplification
- Lack of empirical foundations
- Interest rates and government expenditures
- Interest rates and smaller firms

CONCLUSION

- Both the Radcliffe-Sayers and Gurley-Shaw theories broaden the traditional understanding of money by emphasizing liquidity and the role of financial institutions in creating and managing it.
- These theories highlight the complexity of monetary economics and the importance of considering the interconnectedness of different financial instruments and institutions in influencing economic outcomes.

THANK YOU