

8th Social Science Lesson 10 Notes in English

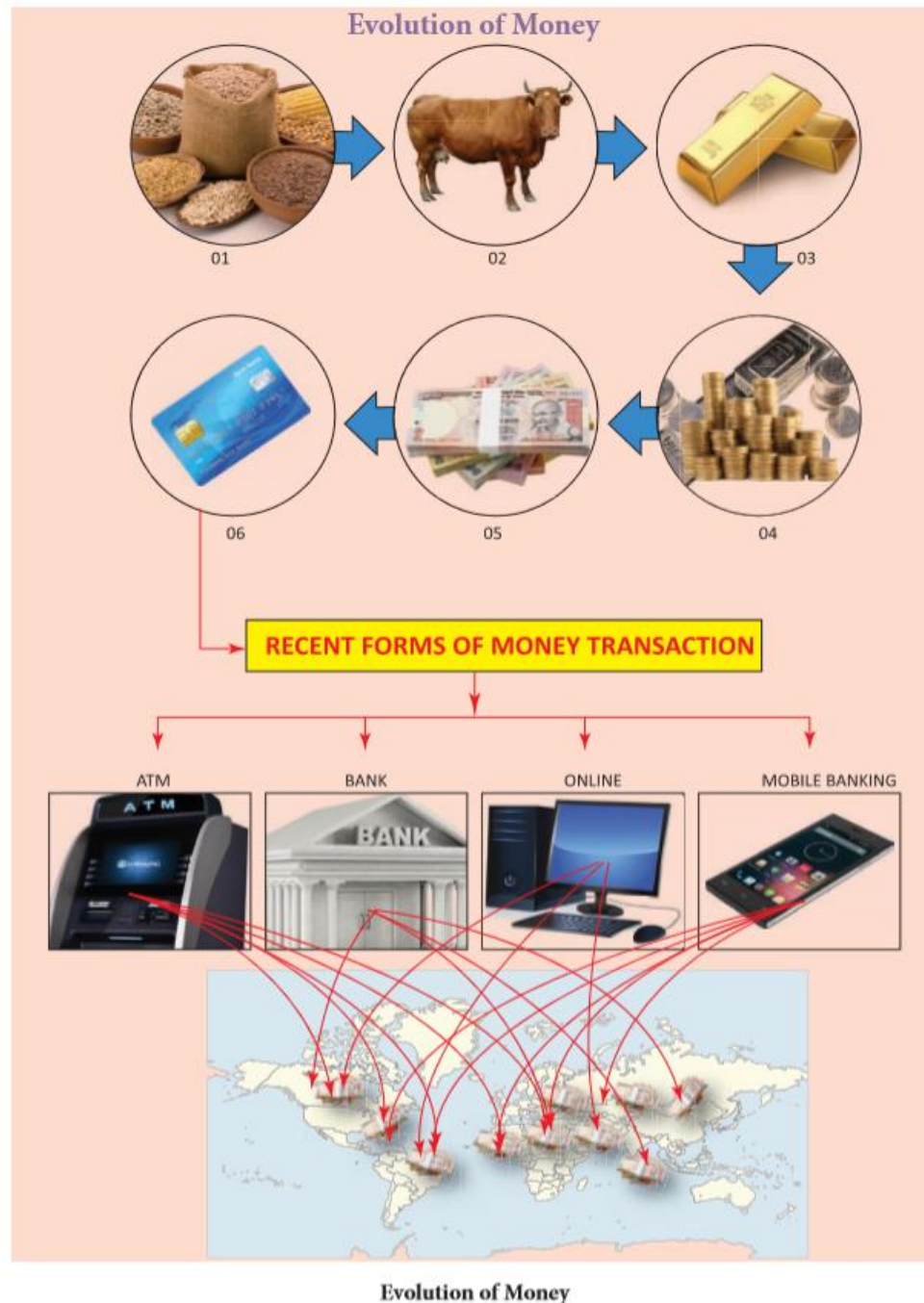
10. Money, Savings and Investments

"Learning gives creativity, creativity leads to thinking, thinking provides knowledge, knowledge makes you great". – A.P.J. Abdul Kalam

Introduction

- Money is a fascinating subject and full of curiosities. It is important to capture this element for the students.
- The history of money and how various forms were used at different times is an interesting story.
- Modern forms of money are linked to the banking system. Money is a fundamental discovery, which has eased the day to day transactions, valuing goods and services and has allowed us to store the wealth and trade in future.
- **"Money is anything which is widely accepted in payment for goods or in discharge of other business obligations"** Robertson.
- Money in some form, has been part of human history for atleast the last 3000 years Before that time, it is assumed that a system of bartering was likely used.

Evolution of Money



- The word Money is derived from Roman word **"Moneta Juno"**. It is the roman goddesses and the republic money of **Roman empire**.
- The Indian rupee is derived from **Sanskrit word 'Rupya'** which means silver coin.
- Today we use paper notes, coins as money. But the evolution of this stage has not happened overnight. It took thousands of years to reach such a stage.
- There are many stages of evolution of money. The earliest and primitive stage is Barter system.

Barter system

Learning Leads To Ruling

During the ancient time.....

BARTER SYSTEM:

Goods and Services are traded in exchange for other good.



Barter system

- Barter system is exchanging goods for goods without the use of money in the primitive stage. A barter system is an old method of exchange.
- This system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return.
- The value of bartering items can be negotiated with the other party. Bartering doesn't involve money which is one of the advantages. Hence Barter system had many deficiencies like,
 1. Lack of double coincidence of wants
 2. Common measure of value
 3. Indivisibility of commodities
 4. Difficulties of storing wealth.

Some of the major stages through which money has evolved are as follows:

Commodity Money, Metallic Money, Paper Money, Credit Money, Near Money and recent forms of Money. Money has evolved through different stages according to the time, place and circumstances.

Commodity Money

- In the earliest period of human civilization, any commodity that was generally demanded and chosen by common consent was used as money.
- Goods like **furs, skins, salt, rice, wheat, utensils, weapons etc.** were commonly used as money.
- Such exchange of goods for goods was known as 'Barter Exchange'.

Metallic Money

- With progress of human civilization, commodity money changed into metallic money.
- Metals like **gold, silver, copper, etc.** were used as they could be easily handled and their quantity can be easily ascertained.
- It was the main form of money throughout the major portion of recorded history.

History of Metallic Money



- The precious metals especially gold, silver, bronze were used for metallic money.
- The standard weight and fineness of metal particularly gold and silver with a seal on it became medium of exchange.
- They were of different denomination easily divisible, portable and were convenient in making payment.
- **King Midas of Lydia** innovated metal coin in the **8th century BC (BCE)** by the ancient historian Herodotus.
- But gold coins were in use in India many centuries than in Lydia.
- The earliest issuers of coins in the world are the ancient Indians along with **Chinese and lydians from the middle east.**

- The first time Indian coins were minted in the **6th century BC (BCE)** by the **Mahajanpadas known as Puranas, Karshapanas or Panas**.
- The Mauryas came up with the Punch Marked Coins minting of silver, gold copper or lead and Indo-Greek Kushan kings introduced the Greek custom of engraving portraits on the coins.
- Turkish sultans of Delhi has replaced the royal designs of Indian kings with Islamic Calligraphy by the 12th century AD (CE).
- The currency was made up of **gold, silver and copper known as Tanka and lower valued coin known as Jittals**.
- The Mughal Empire from **1526 AD** consolidate the monetary system for the entire empire. In this era evolution of rupee occurred with **Sher Shah Suri** defeated Humayun and issued a silver coin of **178 gms** known as rupiya and was divided into **40 copper** pieces or paisa and during the whole Mughal period silver coin remained in use.
- During the British East India company i.e. **1600**, the mughal currency remained popular but in **1717 AD**, **Farrukhsiyar** the Mughal Emperor gave permission to the **Britishes to coin Mughal Money at the Bombay mint**.
- The British gold coins were termed as **Carolina**, the silver coins as **Angelina**, the copper coins as **cupperoon** and the tin coins as **tinny**.

Paper Money

- It was found inconvenient as well as dangerous to carry gold and silver coins from place to place.
- So, invention of paper money marked a very important stage in the development of money.
- The development of paper money started on the basis of storage of gold and the receipts were issued by the goldsmiths for these storages.
- This receipts of goldsmiths were a substitute for money and became paper money. Paper money is regulated and controlled by Central bank of the country (**Reserve Bank of India**).
- At present, a very large part of money consists mainly of currency notes or paper money issued by the central bank.

Credit Money or Bank Money

- Emergence of credit money took place almost side by side with that of paper money.
- People keep a part of their cash as deposits with banks, which they can withdraw at their convenience through cheques.
- The cheque (**known as credit money or bank money**), itself, is not money, but it performs the same as functions of money.

Near Money

The final stage in the evolution of money has been the use of bills of exchange, treasury bills, bonds, debentures, savings certificate etc.

Recent forms of Money

Plastic Money

The latest type of money is plastic money in the form of Credit cards and Debit cards. They aim for cashless transactions.

E-Money

Electronic Money is money which exists in banking computer systems and is available for transactions through electronic system.

Online Banking (Net Banking)

Online Banking, also known as internet banking is an electronic payment system that enables customers of a bank or other financial institutions to conduct a range of financial transactions through website.

E-Banking

Electronic banking, also known as National Electronic Funds Transfer (NEFT), is simply the use of electronic means to transfer funds directly from one account to another rather than by cheque or cash.

Value of Money

Value of money is meant the purchasing power of money over goods and services in a country. Thus it is related to the price level of goods and services. But the relation between the value of money and price level is an inverse one.

The value of money is of two types

- Internal value of money
- External value of money

The **Internal value of money** refers to the purchasing power of money over domestic goods and services.

The **External value of money** refers to the purchasing power of money over foreign goods and services.

Nature of Money

- There has been lot of controversy and confusion over the meaning and nature of money (Scitovsky).
- "Money is a difficult concept to define, partly because it fulfils not one but three functions, each of them providing a criterion of money ness those of a unit of account, a medium of exchange, and a store of value".
- Sir John Hicks, say that **"Money is defined by its functions, anything is money which is used as money, "Money is what money does"**.
- These are the functional definitions of money because they define money in terms of the functions it performs.
- **Some economists define money in legal terms saying that "anything which state declares as money is money"**.
- Such money possesses general acceptability and has the legal power to discharge debts. But people may not accept legal money by refusing to sell goods and services against the payments of legal tender money.
- On the other hand, they may accept some other things as money winch are not legally defined as money in discharge of debts. This may circulate freely.

Functions of Money

Functions of money are classified into Primary or Main function, Secondary function and Contingent function.

Primary or main functions

The important functions of money performed in very economy are classified under main functions:

Medium of exchange or means of payment

Money is used to buy the goods and services.

Measure of value

All the values are expressed in terms of money it is easier to determine the rate of exchange between various type of goods and services.

Secondary functions

The three important of secondary functions are

Standard of deferred payment

Money helps the future payments too. A borrower borrowing today places himself under an obligation to pay a specified sum of money on some specified future date.

Store of value or store of purchasing power

Savings were discouraged under barter system as some commodities are perishable. The introduction of money has helped to save it for future as it is not perishable.

Transfer of value or transfer of purchasing power

Money makes the exchange of goods to distant places as well as abroad possible. It was therefore felt necessary to transfer purchasing power from one place to another.

Contingent functions

- Basis of credit
- Increase productivity of capital
- Measurement and Distribution of National Income

Savings in Banks and Investments

Comparison of Savings and Investments		
Basis for comparison	Savings	Investments
Meaning	Savings represents that part of the person's income which is not used for consumption	Investment refers to the process of investing funds in capital asset, with a view to generate returns
Purpose	Savings are made to fulfil short term or urgent requirements	Investment is made to provide returns and help in capital formation
Risk	Low or negligible	Very high
Returns	No or Less	Comparatively high
Liquidity	Highly liquid	Less liquid

Savings

- Savings are defined as the part of consumer's disposable income which is not used for current consumption, rather kept aside for future use.
- There are several ways through which a person can save money.
- The banking facilitates saving money through various forms of accounts.

Student Savings Account

There are savings accounts some banks offer specifically for young people enrolled in high school or college, and they main feature more flexible terms such as lower minimum balance requirements.

Savings Deposits

Savings deposits are opened by customers to save the part of their current income. The customers can withdraw their money from their accounts when they require it. The bank also gives a small amount of interest to the money in the saving deposits.

Current Account Deposit

Current accounts are generally opened by business firms, traders and public authorities. The current accounts help in frequent banking transactions as they are repayable on demand.

Fixed Deposits

Fixed deposits accounts are meant for investors who want their principle to be safe and yield them fixed yields. The fixed deposits are also called as Term deposit as, normally, they are fixed for specified period.

Benefits of Savings

- You will be financially independent sooner.
- You would not have to worry any unforeseen expenses.
- In future, you will have financial backup in place if you lose your job.
- You will be prepared if your circumstances change.
- You will be more comfortable in retirement.
- Save today for better tomorrow

Intensity to save among the students

- Teach them about taxes and accounting.
- Involve them in grown-up money decisions.
- Encourage them to apply for scholarship
- Help them budget and apply for student loans
- Teach them personal savings.
- Encourage them to open a student **Sanchayeka Scheme**.

Investments

- The process of investing something is known as an investment.
- It could be anything, i.e. money, time efforts or other resources that you exchange to earn returns in future. Investment can be made in different investment vehicles like

- ✓ Stock
- ✓ Bonds
- ✓ Mutual funds
- ✓ Commodity futures
- ✓ Insurance
- ✓ Annuities
- ✓ Deposit account or any other securities or assets.
- An investment always comes with risks of losing money, but it is also true that you can reap more money with the same investment vehicle.
- It has a productive nature that helps in the economic growth of the country.

Black Money

- Black Money is any **money on which it is not paid to the government**.
- Black Money is money earned through any illegal activity controlled by country regulations.
- Black money proceeds are usually received in cash from underground economic activity and, as such, are not taxed.
- The black money is accumulated by the criminals, smugglers, hoarders, tax-evaders and other anti-social elements of the society.
- In India, black money is funds earned in the black market, on which income and other taxes have not been paid.
- The total amount of black money deposited in foreign banks by Indians is unknown.
- The root cause for the increasing rate of black money in the country is the lack of strict punishments for the offenders.

Effects of Black Money on economy

- Dual economy
- Tax evasion, thereby loss of revenue to government.
- Undermining equity
- Widening gap between the rich and poor
- Lavish consumption spending
- Distortion of production pattern
- Distribution of scarce resource
- Effects on production.

Recent steps against Black Money

- Under pressure from India and other countries, Switzerland has made key changes in its local laws governing assist foreign allegedly stashed in Swiss Banks.
- Special Investigation Team appointed by government on the directions of Supreme Court on black money.

- Demonetization

Some Legislative Framework in India against to Black Money

- Prevention of money laundering act 2002
- Lokpal and Lokayukta act
- Prevention of corruption act- 1988
- The undisclosed foreign Income and Asset Bill (Imposition of Tax) 2015
- Benami transactions prohibition act 1988 amended in 2016
- The Real Estate (Regulation and Development) Act, 2016

More to Know:

1. Demonetization

In India, **On 8-November-2016**, the Government of India announced demonetization of all `500 and `1000 bank notes against Black Money.

2. Inflation and Deflation

Inflation refers to the prices are rising, the value of money will fall. Deflation refers to the prices are falling, the value of money will rise.

3. Symbol of Rupee

The Indian Rupee symbol ₹ designed by **Mr.Udayakumar, Villupuram Dist Tamil Nadu**. It was approved by the Government of India on **15-July-2010**.