

Different components of money supply.

From April, 1977 the Reserve Bank has adopted four concepts of money supply in its analysis of the quantum of and variations in money supply. These four concepts of measures of money supply are explained below:

1. Money supply M_1 or Narrow Money:

This is the narrow measure of money supply as defined above and is composed of following items:

$$M_1 = C + DD + OD$$

Where

C = Currency with public.

DD = Demand deposits of banks.

OD = Other deposit of the RBI.

2. Money supply M_2 :

In ~~add~~ addition to the three items of M_1 , the concept of money supply M_2 includes savings deposits with the post office savings bank thus,

$$M_2 = M_1 + \text{Savings deposits with the post office Savings bank.}$$

3. Money supply M_3 :

This is also called broad money. Besides the items of M_1 , the net time deposits of the banks are also included in M_3 . In the terminology of money supply employed by the RBI till April, 1977, this M_3 was called Aggregate Monetary Resources (AMR).

Thus

$$M_3 = M_2 + \text{Net time deposits of the banks}$$

4. Money Supply M_4 :

The measure M_4 of money supply includes not only all the items of M_3 described above but also the total deposits with the post office savings organisation. However, this excludes contributions made by the public to the national Savings certificates. Thus,

$$M_4 = M_3 + \text{Total deposits of post office savings organisation.}$$