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# THE ROLE AND EFFECT OF THE SUPPLY OF MONEY IN AN ECONOMY

**Manav Singh**
**Assistant Professor, LMPV,Girls PG College.**

ABSTRACT:

*The flow of blood in a human body if it gets disturbed can cause several ailments to the person concerned, likewise if the flow of money in any economy gets disturbed then it can cause lot of problems for the economy concerned, this paper is an effort to bring out the positive as well as evil effects of the disturbances in the supply of money in any economy.*


*Several economist have worked out on the supply of money and have given various theories in this regard, like professor Fisher, David Hume, John locke, keynes and many more.*

*Most of the economist have reached the conclusion that there is a direct relationship between the quantity of money or the supply of money and the price level in the economy very famous theory in this regard is also known as the quantity theory of money that was given by Irving Fisher And he gave the world a new formula known as MV =PT.*

*Money make the mayor go and it is also one of the root causes of all the evils in the society but money is a bad master but a good servant, in this context letters once again throw some light upon the supply of money and its role in any economy of the world.*

**KEYWORDS :** *Supply of money, Inflation,Deflation,stagflation,Equilibrium,Disequilibrium.*

## INTRODUCTION :

There are 4 major objectives of any economy or any government that takes control of any economy so that it remains in equilibrium these objectives are as follows:-

1. To bring price stability in goods and services.
2. To create employment opportunities for the generations.
3. To bring balance of payments equilibrium in the economy.
4. To bring economic growth and economic development in the economy.

The above mentioned objectives are very hard to be brought into equilibrium, therefore the economists have to pay special attention in bringing an equilibrium in the above 4 objectives because without which the economy lands into a disequilibrium bringing miseries for the economy concerned, but if the economist are able to realise the effort set objectives then that economy heads towards economic growth and development and GDP of the country increases which is equally distributed in terms of the per capita income and all the miseries of the economy are taken care of.

If the supply of money is not controlled within the required limits of its growth then the economy is subject to the demerits of inflation and deflation resulting thereby, simpler words if the supply of money is too much in the economy, then also it is not good, if the supply of money is less in the economy then also it is not good for the economy, above lines signify that there has to be an equilibrium growth of supply of money which will result into the realization of above 4 objectives, otherwise in any of the other conditions, the economy will land into trouble.

## OBJECTIVES

1. To review the role of the supply of money.
2. To study the cause and effect relationship of the supply of money and the price level in the economy.
3. To understand the evil effects of the excess and the low supply of money in the economy.
4. To suggest measures to control the evil effects of the supply of money.

## RESEARCH METHODOLOGY

This research is based on the secondary data comprising of books, journals, magazines published literature, and other sources like Internet, television newspapers .

## HYPOTHESIS

Excess and Deficient supply of money,both are not good for an economy, it should be in an equilibrium.

## HIGHLIGHTS

### Excess supply of money and its consequences

When the supply of money in an economy is in excess, or in other words if the supply of money is too much in the economy, that means that the people of the economy are having excess liquidity which will infuse them to buy goods and services from the market, in simple words when they are having lot of money with them they will start buying goods and services from the market ,which will increase the demand for goods and services, which will lead to increase in prices of the goods and services, which we all know that it is known as Inflation .

When there is excess supply of money it results into increase in the prices of goods and services, therefore it is clear that the first Macro Economic object ,as mentioned in the introduction of this paper, will not be met ,that is price stability objective will be failed to realise and the citizens of such an economy will face the problem of expensive or costly goods and services ,which will lead to their misery and unrest in the society, we all know that as goods become dearer , people have to work very hard ,day and night to make both their ends meet and hence their daily life becomes hectic and monotonous resulting into long hours of work ,where they face a lot of mental pressure for a livelihood leading to an unhappy and a stresses life ,where they are not able to even spend time with their family members, children which somehow reduces their life expectancy as well.

Hence it is the duty of any government or an economy to provide a healthy and a peaceful life to its citizens otherwise it will be considered to be it's failure.

Various reports on Inflation can be seen on the internet which provides umpteen reports on the high rates of inflation in different countries since a decade , which has led to failure of several governments leading to their downfall and unrest of its citizens.

On the foreign front how can an economy expect good relations with rest of the world or a balance of payments equilibrium, when it's goods and services have become so expensive for the other countries ,because we all are aware that when our goods and services have become expensive in the eyes of the importers ,our exports will decline ,leading to fall in the net factor income from abroad ,which will result into a decreased national income, as our foreign exchange will reduce. Employment will also be disturbed and for any economy if the National income gets disturbed ,it cannot be expected to bring Economic growth and development for the economy on a Macro level.

### Deficient supply of Money and its consequences

When the supply of money in an economy becomes deficient ,it results into low lncome of the people, signifying low liquidity, Leading to fall in the prices of goods and services as the businessmen will be forced to sell them at reduced price due to lower demand of their products and when their goods and services will not be sold due to low demand ,there will be excess goods in stock as inventory, therefore the production of new goods will be stopped for sometime ,till the profit maximising conditions of the economy return back , therefore we have understood tha deficient supply will also result into unemployment of people as the need for production haults for sometime ,till the conditions revert back for lucrative production. obviously when the prices fall , income will reduce , employment will reduce and the need for Government intervention will be realised without which the objectives will not be fulfilled .

## Equilibrium

The Equilibrium of an economy will be reached at a point where there is neither excess supply of money ,nor deficient supply of money ,now the question arises where will this situation take place, The answer to this question lies it the equilibrium of the economy will take place where aggregate demand in the economy is equal to the aggregate supply in the economy or in other words the other side of the coin that is where savings is equal to investment. to make it more clear the statement where savings will be equal to investment means the required rate of savings should be equal to the required rate rate of investment of that point of time for the economy.

## CONCLUSION AND SUGGESTIONS

To conclude it can be said here that when the equilibrium in the economy gets disturbed due to the negligence or ignorance of the household sector business sector and over the foreign sector relationships the government has to intervene, in this regard the government has its own agency which was established on 1st of April 1935,It is considered to be an apex institution and is the central Bank of India known by the name Reserve Bank of India, the tools that are available with the Reserve Bank of India are known as quantitative and qualitative credit control methods, in other words it is also known as the monetary policy, whereby the government managers regulates and control the supply of money in the economy to make it risk free from inflation and deflation unemployment and disequilibrium in the balance of payments to foster economic growth and development so that the trickle down effects of it reaches to the roots of the country.

Therefore to name a few tools of monetary policy which are available with the Reserve Bank of India which is an apex institution of the government are Bank rate, open market operation ,cash reserve ratio ,repo rate reverse repo rate, statutory liquidity ratio and other qualitative measures which are used at the times when the supply of money gets disturbed so that the objectives of the macro economy can be achieved.

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