Value of Money.

Prof. Zaheer Abass khatana, GDC Doongi (Rajouri)

- The value of money is the quantity of goods in general that will be exchanged for one unit of money.
- The value of money is its purchasing power that is the quantity of goods and services it can purchase.
- What money can buy depend upon the level of price. Low price level means money can buy more and vice versa.

Value of money.

- There is inverse relationship between value of money and price.
- When the price rises the value of money falls.
- When the price falls the value of money rises.

Value of money.

- When the price level rises a unit of money can purchase less goods than before.
- Money is then said to have depreciated.
- Conversely, a fall in price signifies that a unit of money can buy more goods than before.
- Money is then said to appreciate.

Value of money.

- Violent changes in the value of money or the price level disturb economic life and livelihood of the people.

- We must therefore carefully study the factors which determine the value of money.

- If a rupee can buy one kg of wheat today but purchase only half a kg tomorrow we are greatly perplexed.

Value of Money.

- When value of money falls it become harder for the people to mange their daily budget.

- We feel disgusted with our food measure, the rupee which has shrunk to half its length.

- We want to know what has happened. We are told that the value of money has changed.

Value of Money.

- Changes in prices is not uniform. Some prices rises other fall while still others remain stationary.
- A comparison of price changes would give a very confusing picture.
- We have to discover the extent of the overall changes in the value of money before suggesting a remedy.
- Thus the value of money and general price level are inversely related to each other.

Value of Money.

- The value of money is determined by the demand for and supply of money like the price of all other economic goods and services.

- The particular relation between this demand and supply determines its particular purchasing power.

Value of Money.

- During the inflation value of money falls because it require more money to buy same quantity of goods.

- When the demand for goods and services exceeds their supply they become more expensive. It implies that value of money has fallen.

Value of Money.

- The main three factors which determine the value of money are exchange rate, the amount of dollar held in foreign reserves and the value of treasury notes.

- The value of money can be arbitrary, and it can be tied directly to an item considered particularly valuable in and of itself.

Value of Money.

- An increase in the money supply in an economy leads a fall in value of money and vice- versa.

- Increased supply of money means more money with the public.

- Which further leads an increase in the demand for goods and services; consequently general price level rises leading to a fall in the value of money.

THANK YOU.