SSC

SMIT SIR COMMERCE

GSEB | ENGLISH MEDIUM

ECONOMICS

STANDARD 12

CHAPTER 3

Money and Inflation

Complete Concept Notes | Textbook-Based | Board Exam Preparation

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Learn the Concept. Understand the Logic. Write Better Answers.

How These Notes Are Built

These notes follow the official GSEB Class 12 Economics Chapter 3 structure and rebuild it into a cleaner teaching sequence. Your earlier notes were used to make sure no classroom point was missed, but the official textbook remains the primary source.

- Every official heading from Barter System to Causes of Inflation is covered.
- Large paragraphs are broken into simple explanations and examples.
- Money functions are directly connected to the barter problems they solve.
- Inflation is explained using demand, supply, full employment and purchasing power.
- Board-style answers, case questions, comparisons and MCQs are added.

TEXTBOOK NOTE

The chapter contains some textbook-era examples and figures (for example population/import-related statements). These notes preserve the textbook framing for exam preparation rather than presenting those figures as current statistics.

Chapter at a Glance

Section	Topic	Core Idea
3.1	Barter System	Direct exchange without money + 3 major limitations
3.2	Origin of Money	How exchange evolved from goods/animals to modern money
3.3	Functions of Money	Medium of Exchange, Store of Value, Measure of Value
3.4	Types of Money	Commodity, Animal, Metal, Paper, Plastic, Banking/e-Money
3.5-3.7	Inflation	Meaning, definitions and characteristics
3.8	Causes of Inflation	Demand-pull, Cost-push and other reasons

EXAM IMPORTANT

The chapter has two big stories: Why money replaced barter and why the value of money falls during inflation.

Learning Objectives

- define barter system and explain all three limitations with examples.
- explain the evolution of money logically, not as a memorised list.
- explain the meaning and three functions of money.
- connect each function of money with the barter limitation it solves.
- explain all six textbook types of money.
- define inflation and distinguish a temporary price rise from true inflation.
- explain Lerner, Pigou and Keynes in simple language.
- explain all characteristics of inflation, including suppressed inflation.
- differentiate demand-pull and cost-push inflation.
- explain all causes of inflation from the textbook.

Introduction - Why Money Exists

Human wants are unlimited, but no person produces everything needed. Exchange therefore becomes necessary. In ancient society this exchange was carried out directly through goods and services.

As population, specialisation, industrialisation and urbanisation increased, direct exchange became too difficult. Money developed because economies needed a common, accepted and convenient medium.

REMEMBER THIS

Money did not appear randomly. It evolved because barter had practical problems.

3.1 Meaning of a Barter System

Meaning: Barter is a system in which goods or services are exchanged directly for other goods or services without using money as a medium of exchange.

KEY TERM - BARTER SYSTEM

Direct exchange of goods/services for other goods/services without money.

Simple Example: A wheat farmer gives wheat to a shoemaker and receives shoes in return.

Why it worked earlier: Needs were fewer, village economies were simpler, occupations were less specialised and local exchange was manageable.

Why it became difficult: Industrialisation, urbanisation, division of labour and specialisation increased the number and variety of goods and wants.

3.1.1 Limitations of Barter System

The official chapter gives three major limitations. These three problems directly explain why money was needed.

1. Problem of Mutual Adjustment of Wants

In Simple Words: In barter, both people must want exactly what the other person is offering at the same time.

KEY TERM - DOUBLE COINCIDENCE OF WANTS

A situation in which each of two parties must simultaneously want what the other party offers.

Example: A person with rice wants clothes. The person with clothes may not want rice - she may want ghee. Even though both own useful goods, exchange fails.

Additional difficulty: Some goods are indivisible. A cow cannot conveniently be divided just to buy a small quantity of rice.

EXAM IMPORTANT

This is the main practical failure of barter and is solved by money's function as a medium of exchange.

2. Difficulty in Storing Value

In Simple Words: Barter goods are often difficult to save for future use.

Food and crops may spoil. Animals may become sick or die. Therefore, a person with surplus production could not reliably preserve the exchange value for the future.

Example: A farmer with surplus wheat may want to save today's value for buying shoes six months later. Wheat may deteriorate before then.

EXAM IMPORTANT

This problem is solved by money's function as a store of value.

3. Problem of Measurement of Value

In Simple Words: Barter had no common unit to measure the value of different goods.

If 20 kg wheat = 40 kg rice = 10 metres cloth = 1 kg ghee, then hundreds of exchange ratios must be remembered as the number of products increases.

Problem: How much cloth equals 1 kg ghee? How much rice equals a pair of shoes? The system becomes extremely complex.

EXAM IMPORTANT

This problem is solved by money's function as a measure of value / common unit of account.

Barter Problems - One-Look Summary

Barter Limitation	Why It Is a Problem	Money Function That Solves It
Mutual Adjustment of Wants	Both sides must want each other's goods	Medium of Exchange
Difficulty in Storing Value	Goods may perish / animals may die	Store of Value
Measurement of Value	No common measuring rod	Measure of Value

SMIT SIR'S NOTE

This mapping is the logic of the entire first half of the chapter.

3.2 Origin and Development of the Concept of Money

Money evolved gradually because each earlier exchange medium had limitations. The textbook shows a movement from direct barter toward increasingly durable, accepted and convenient forms.

Evolution of Money - Step by Step

Stage	Medium	Why the Next Stage Was Needed
1. Barter	Goods exchanged directly for goods.	Double coincidence, storage and measurement problems.
2. Commodity Money	Useful commodities such as crops/goods were used as exchange media.	Perishable and inconvenient to standardise.
3. Animal Money	Animals such as cow, horse and buffalo were used as stores/means of exchange.	Animals are mortal and difficult to store/standardise.
4. Valuable Minerals and Stones	More durable valuable objects replaced animals.	Use remained limited to particular societies/regions.
5. Metal / Coin Money	Metal coins became common under kingdoms and trade systems.	Acceptance could remain region-specific.
6. Paper Money	Government-backed notes became widely accepted and easier to carry/store.	Requires institutional trust and monetary authority.
7. Banking / Plastic / e-Money	Banking system, cards and electronic money increased convenience and transferability.	Modern form depends on banking/digital systems.

3.3 Meaning of Money

The textbook's approach is functional: to understand money, understand what money does. Anything accepted generally and capable of performing the key money functions can serve as money.

Marshall - source idea: Money is a generally accepted medium used for exchange without needing investigation into its acceptability each time.

Robertson - source idea: Money is what is accepted generally in exchange for goods and services.

SMIT SIR'S NOTE

Do not memorise only definitions. Ask: What problem is money solving?

Functions of Money - Overview

Function	Simple Meaning	Barter Problem Solved
Medium of Exchange	Used to buy and sell	Double coincidence of wants
Store of Value	Can save purchasing power for future	Difficulty in storing value
Measure of Value	Common unit for prices	Problem of measuring exchange values

3.3.1 Money as a Medium of Exchange

Meaning: Money stands between buyer and seller as a universally accepted intermediary.

How it works: A farmer sells wheat for money. Later, the farmer uses the money to buy clothes, rice or services. Buying and selling become separate acts.

Big benefit: You no longer need to find someone who both has what you want and wants exactly what you have.

EXAM IMPORTANT

Medium of exchange removes double coincidence of wants.

3.3.2 Money as a Store of Value

Meaning: Money allows purchasing power to be saved and used later.

Unlike crops that may spoil or animals that may die, money is much more convenient for preserving exchange value over time.

Connection with credit: The chapter also connects money with deferred payments - debts, hire-purchase and instalment arrangements become easier when obligations are expressed in money.

COMMON MISTAKE

Do not say money preserves real purchasing power perfectly forever. Inflation can reduce purchasing power. The textbook point is that money is far more convenient than barter goods for storing exchange value.

3.3.3 Money as a Measure of Value

Meaning: Money provides a common unit in which the value of goods and services can be expressed.

Instead of remembering thousands of barter ratios, the economy uses prices. A shirt may be Rs. 800, rice Rs. 60/kg, and a service Rs. 500.

Benefit: Values can be compared quickly, contracts become clearer and exchange becomes easier.

EXAM IMPORTANT

Measure of value = common yardstick / unit of account.

3.4 Types of Money

The official chapter lists six types of money. These types show how money has changed from physical commodities to increasingly convenient financial forms.

Type	Meaning / Example	Key Feature
1. Commodity Money	Goods such as grain, salt or cloth used as money	Has use value as a commodity
2. Animal Money	Cow, horse, buffalo etc.	Could serve as wealth but animals are mortal
3. Metal Money	Minerals and metal coins	More durable and standardised
4. Paper Money	Government-regulated currency notes	Portable and widely accepted
5. Plastic Money	Credit/debit cards	Bank-based payment instrument
6. Banking Money / Invisible / e-Money	Electronic balances and digital transfers	No need for physical cash in every transaction

Types of Money - Evolution Logic

REMEMBER THIS

Commodity -> Animal -> Metal -> Paper -> Plastic -> Banking/e-Money

What changes over time? Money becomes more portable, divisible, durable, accepted and easier to transfer.

SMIT SIR'S NOTE

The textbook chapter groups modern bank-based and electronic forms under banking/invisible/e-money. Use the textbook classification in the exam.

3.5 Meaning of Inflation

Simple Meaning: Inflation means a continuous and general rise in the overall price level, which reduces the purchasing power of money.

KEY TERM - INFLATION

A sustained rise in the general price level across the economy, causing the purchasing power/value of money to fall.

REMEMBER THIS

Inflation is not every price increase. A temporary rise in one product's price is not enough.

Example: If only tomatoes become expensive for one week because of bad weather, that by itself is not general inflation. If prices across food, transport, services and many goods keep rising, that fits the inflation idea much better.

Inflation and Purchasing Power

Purchasing power means how much goods and services a given amount of money can buy.

Example: Suppose Rs. 100 could buy 5 units earlier but now buys only 4 units. The money amount is unchanged, but its purchasing power has fallen.

EXAM IMPORTANT

General Price Level rises -> Purchasing Power of Money falls.

3.6 Definitions of Inflation - Understand the Thinkers

Dr. A. P. Lerner - source idea: Inflation is linked with excess demand over supply.

Dr. A. C. Pigou - source idea: Inflation occurs when money income rises faster than real income.

Dr. J. M. Keynes - source idea: The harmful/true inflation situation becomes important when money income rises after the economy has reached full employment and output cannot easily expand further.

SMIT SIR'S NOTE

Three lenses: Lerner = demand-supply, Pigou = money income vs real income, Keynes = full employment.

Keynes' Full-Employment Logic - Easiest Explanation

Before full employment: Some labour, machines or other resources are idle. Higher demand can encourage firms to employ unused resources and increase output.

At / after full employment: Most productive resources are already fully employed. Extra money/demand cannot easily create much extra output, so the pressure moves mainly into prices.

Situation	Resources	Effect of Higher Demand
Before Full Employment	Some resources unemployed	Output and employment can rise; price pressure may be limited
At / After Full Employment	Resources fully used	Output cannot rise much; prices rise more strongly

EXAM IMPORTANT

Board focus: Keynes associates true/harmful inflation with price rise beyond the full-employment level.

3.7 Characteristics of Inflation

1. Constant Rise in Price Levels

Inflation is continuous and persistent, not a one-time price jump.

Example: A festival-week price spike alone is not inflation.

2. Price Rise in All / Broad Sectors

Inflation is general and widespread across the economy, not confined to one item.

Example: Food + transport + services + manufactured goods all show rising trends.

3. Purchasing Power Decreases

As the general price level rises, the same money buys fewer goods and services.

Example: Rs. 500 buys less than before.

4. Price Rise after Full Employment is True Inflation in Keynes' View

Once factors are fully employed, higher money income cannot easily expand output, so prices rise.

Example: Extra demand mainly raises prices rather than production.

Additional Textbook Points about Inflation

Suppressed Inflation: Government controls may prevent the full price rise from appearing openly. The inflationary pressure exists but is held down through rules, controls or subsidies.

Short-Period Price Rise of Limited Goods: A temporary increase in the price of a few goods is not treated as inflation.

Price Rise before Full Employment: The textbook explains that when resources are unemployed, higher prices/demand can motivate producers to expand production and employment. This is different from the harmful inflation pressure after full employment.

3.8 Causes of Inflation

Price is influenced by demand and supply. Therefore, the chapter organises inflation causes into two major groups and some additional causes.

Cause Group	Basic Mechanism
Demand-Pull Inflation	Aggregate demand rises faster than aggregate supply
Cost-Push Inflation	Cost of production rises, pushing prices upward
Other Causes	Taxation, import-price rise and scarcity add inflationary pressure

3.8.1 Demand-Pull Inflation

Meaning: Demand-pull inflation occurs when total demand for goods and services rises more than total supply.

KEY TERM - DEMAND-PULL INFLATION

Inflation caused when aggregate demand exceeds aggregate supply.

REMEMBER THIS

Demand-Pull = Too much demand chasing too little supply.

1. Increase in Supply of Money

When people have more money/income but production does not increase equally, demand rises and prices increase.

Logic: More money + same goods = upward pressure on prices.

2. Increase in Public / Government Expenditure

Government spending on infrastructure, utilities or employment can raise incomes and demand. If production does not keep pace, prices may rise.

Logic: Large spending raises purchasing power faster than supply.

3. Over-Population / Rising Population Demand

More people create greater demand for necessities. If supply is insufficient, prices rise.

Logic: More consumers compete for the same limited supply.

EXAM IMPORTANT

Demand-pull chain: Demand rises -> Supply cannot keep up -> General prices rise.

The 'Too Much Money, Too Few Goods' Logic

The chapter uses the monetarist idea associated with Machlup: when the money available to spend expands faster than the volume of goods and services, people compete for limited output and prices rise.

Simple Example: If everyone suddenly has more money to spend but the quantity of rice, vegetables and transport services does not increase, sellers face more demand and prices may increase.

SMIT SIR'S NOTE

The important logic is the imbalance between money-backed demand and real output.

3.8.2 Cost-Push Inflation

Meaning: Cost-push inflation occurs when production costs rise and producers pass some of those higher costs into prices.

KEY TERM - COST-PUSH INFLATION

Inflation caused by an increase in the cost of producing goods and services; the textbook also connects this with supply-shock inflation.

Costs mentioned: raw materials, machines/equipment, electricity, water, wages and transportation.

Cost-Push Mechanism - One-Look Flow

Step	What Happens
1	Cost of raw material / wages / power / transport rises
2	Cost of production increases
3	Producer tries to protect margin / cover cost
4	Selling prices increase
5	General price level can rise if this happens broadly

EXAM IMPORTANT

Demand-Pull starts from the demand side. Cost-Push starts from the production/supply side.

Demand-Pull vs Cost-Push Inflation

Basis	Demand-Pull	Cost-Push
Starting Point	Increase in aggregate demand	Increase in production cost
Core Problem	Demand > Supply	Cost rises / supply pressure
Examples from Textbook	Money supply, govt expenditure, population	Raw material, wages, power, transport
Direction	Demand side	Supply / cost side
Simple Memory	Too much demand	Too much cost

3.8.3 Other Reasons for Inflation

1. Taxation Policy

Higher taxes can raise production or business costs and therefore increase final prices.

Example: If tax on an input rises, transport or production cost can rise.

2. Increase in Price of Imports

When imported inputs such as crude oil become more expensive, domestic transport and production costs can rise.

Example: Higher international crude prices can raise fuel-related costs.

3. Scarcity

Shortage of raw material, electricity or other production inputs can reduce supply and increase prices.

Example: A prolonged raw-material shortage limits production.

TEXTBOOK NOTE

The official textbook uses a historical petroleum-import percentage as an example. These notes keep the economic mechanism - imported input prices can transmit inflation - without treating the old percentage as a current statistic.

Master Table - Causes of Inflation

Cause	Type	Mechanism
Increase in Money Supply	Demand-Pull	More money -> more demand -> prices rise if supply does not keep pace
Increase in Government Expenditure	Demand-Pull	Income/demand rise -> pressure on prices
Population / demand pressure	Demand-Pull	More demand for necessities -> prices rise if supply is insufficient
Higher Production Costs	Cost-Push	Higher costs -> producers raise prices
Higher Tax Burden	Other / Cost-Push channel	Higher costs -> higher prices
Higher Import Prices	Imported / Cost-Push channel	Imported inputs cost more -> domestic costs rise
Scarcity	Other / Supply pressure	Shortage reduces supply -> prices rise

How Inflation Reduces the Value of Money

If General Prices...	Purchasing Power of Money...	Meaning
Rise	Falls	Same money buys fewer goods
Remain Stable	Broadly stable	Same money buys similar basket
Fall	Rises	Same money can buy more goods

REMEMBER THIS

Inflation does not mean currency notes physically shrink. It means their real purchasing power falls.

Common Mistakes Students Make

COMMON MISTAKE

Wrong idea: Barter means buying goods using cash.
Correct idea: Barter means direct exchange without money.

COMMON MISTAKE

Wrong idea: Double coincidence means both parties possess money.
Correct idea: It means both parties simultaneously want what the other offers.

COMMON MISTAKE

Wrong idea: Money has only one function.
Correct idea: The chapter explains medium of exchange, store of value and measure of value.

COMMON MISTAKE

Wrong idea: Store of value means money never loses purchasing power.
Correct idea: Inflation can reduce purchasing power; the function refers to money's convenience for carrying value into the future.

COMMON MISTAKE

Wrong idea: A rise in the price of one vegetable is inflation.
Correct idea: Inflation is a sustained general rise in prices.

COMMON MISTAKE

Wrong idea: Demand-pull and cost-push are the same.
Correct idea: Demand-pull begins with excess demand; cost-push begins with higher production costs.

COMMON MISTAKE

Wrong idea: Any price rise before full employment is 'true inflation' in Keynes' sense.
Correct idea: The textbook's Keynesian framing emphasises the post-full-employment situation.

COMMON MISTAKE

Wrong idea: Suppressed inflation means inflation has disappeared.
Correct idea: Price controls can hide/suppress visible price increases while inflationary pressure remains.

How to Write Major Answers in the Exam

Q1. Define Barter System and Explain its Limitations

Best structure: Meaning -> 3 limitations -> example under each -> conclusion that these led to money.

Q2. Explain Origin and Evolution of Money

Best structure: Barter -> Commodity -> Animals -> Minerals/Metal -> Paper -> Plastic/Banking/e-Money.

Q3. Define Money and Explain its Functions

Best structure: Source definition idea -> Medium of Exchange -> Store of Value -> Measure of Value.

Q4. Explain Characteristics of Inflation

Best structure: 4 characteristics -> suppressed inflation -> short-term limited price rise not inflation.

Q5. Define Inflation and Explain its Causes

Best structure: Meaning -> Lerner/Pigou/Keynes ideas -> Demand-Pull causes -> Cost-Push -> Other causes.

Q6. Demand-Pull vs Cost-Push

Best structure: Use a comparison table with starting cause, mechanism and examples.

Practice Set A - MCQs

1. Direct exchange of goods without money is called:

- A. Barter
- B. Banking
- C. Inflation
- D. Credit

2. The main barter problem requiring both parties to want each other's goods is:

- A. Double coincidence of wants
- B. Inflation
- C. Banking
- D. Pricing

3. Which function of money solves double coincidence?

- A. Medium of exchange
- B. Store of value
- C. Measure of value
- D. Inflation

4. Which function solves the storage problem?

- A. Store of value
- B. Medium of exchange
- C. Measure of value
- D. Barter

5. Which function gives a common yardstick?

- A. Measure of value
- B. Store of value
- C. Banking
- D. Taxation

6. Which is a type of money in the textbook?

- A. Commodity money
- B. Inflation money
- C. Labour money only
- D. Tax money

7. Paper money is mainly:

- A. government-regulated currency
- B. animal money
- C. barter
- D. raw material

8. Inflation means:

- A. sustained general price rise
- B. one product price rises for one day
- C. production only
- D. barter

9. During inflation, purchasing power of money generally:

- A. falls
- B. rises
- C. becomes infinite
- D. disappears

10. Lerner's inflation idea focuses on:

- A. excess demand over supply
- B. barter storage
- C. animal money
- D. banking

11. Pigou's idea compares:

- A. money income and real income
- B. imports and exports
- C. labour and land
- D. gold and silver

12. Keynes' true-inflation framing emphasises:

- A. full employment
- B. barter
- C. credit card
- D. PQLI

13. Government price controls hiding inflationary pressure are called:

- A. suppressed inflation
- B. barter
- C. cost accounting
- D. deflation

14. Increase in aggregate demand causing inflation is:

- A. demand-pull
- B. cost-push
- C. barter
- D. paper money

15. Increase in production cost causing inflation is:

- A. cost-push
- B. demand-pull
- C. barter
- D. banking

Practice Set B - Conceptual MCQs

16. A rice farmer cannot find a shoemaker who wants rice. Which barter problem?

- A. Double coincidence of wants
- B. Store of value
- C. Inflation
- D. Credit

17. A farmer's surplus crop rots before future exchange. Which barter limitation?

- A. Difficulty in storing value
- B. Mutual adjustment only
- C. Inflation
- D. Banking

18. Hundreds of exchange ratios must be remembered. Which problem?

- A. Measurement of value
- B. Store of value
- C. Full employment
- D. Taxation

19. Prices rise only for onions for one week. Is that enough to call economy-wide inflation?

- A. No
- B. Yes always
- C. Only if paper money exists
- D. Only under barter

20. People receive more money, but output stays unchanged. Which inflation pressure?

- A. Demand-pull
- B. Cost-push only
- C. Barter
- D. Deflation

21. Wages and electricity costs rise sharply across industry. Which inflation?

- A. Cost-push
- B. Demand-pull only
- C. Barter
- D. Commodity money

22. Government spends heavily and demand rises faster than supply. Which inflation?

- A. Demand-pull
- B. Cost-push only
- C. None
- D. Barter

23. Imported crude oil becomes costlier and raises transport cost. Which channel?

- A. Imported / cost-push pressure
- B. Demand coincidence
- C. Barter
- D. PQLI

24. Price controls prevent visible price rise, but excess demand remains. Which concept?

- A. Suppressed inflation
- B. Metal money
- C. Barter
- D. Deflation

25. If general prices double while income is unchanged, purchasing power roughly:

- A. falls
- B. doubles
- C. becomes zero necessarily
- D. becomes barter

MCQ Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	A	3	A	4	A	5	A
6	A	7	A	8	A	9	A	10	A
11	A	12	A	13	A	14	A	15	A
16	A	17	A	18	A	19	A	20	A
21	A	22	A	23	A	24	A	25	A

Board-Style One-Line Questions

- What is barter system?
- What is double coincidence of wants?
- What is money?
- Name the three functions of money.
- What is commodity money?
- What is paper money?
- What is banking/invisible money?
- What is inflation?
- What is suppressed inflation?
- What is demand-pull inflation?
- What is cost-push inflation?
- What happens to purchasing power during inflation?

Board-Style Short / Brief Questions

- Explain money as a medium of exchange.
- Explain money as a store of value.
- Explain money as a measure of value.
- State the three limitations of barter system.
- Explain the evolution of money briefly.
- State the types of money.
- Explain the characteristics of inflation.
- State the causes of inflation.
- Explain demand-pull inflation.
- Explain cost-push inflation.

Board-Style Detailed Questions

- Define barter system and explain its limitations.
- Write a detailed note on the origin and evolution of money.
- Define money and explain its functions.
- Explain the types of money.
- Define inflation and explain its characteristics.
- Explain the causes of inflation in detail.
- Differentiate demand-pull and cost-push inflation.
- Explain the statement that excess money relative to goods creates inflationary pressure.

Application / Case-Based Practice

Case 1

Ravi has wheat and wants shoes. Mohan has shoes but wants milk, not wheat. Why does barter fail?

Answer: There is no double coincidence of wants.

Case 2

A farmer wants to preserve the value of surplus vegetables for six months, but they will spoil.

Answer: This shows difficulty in storing value under barter.

Case 3

Every product has dozens of barter exchange ratios with every other product.

Answer: This shows the problem of measurement of value.

Case 4

A shop accepts money, then the seller later uses that money to buy something completely different.

Answer: Money is performing the medium-of-exchange function.

Case 5

Prices of many goods and services keep rising for months.

Answer: This is consistent with general inflation.

Case 6

People receive more income while production remains almost unchanged.

Answer: This creates demand-pull inflation pressure.

Case 7

Electricity, wages and transport costs rise sharply for producers.

Answer: This creates cost-push inflation pressure.

Case 8

The government fixes prices below market-clearing levels while excess demand remains.

Answer: This illustrates suppressed inflation in the textbook framing.

5-Minute Chapter Revision

Barter: Direct exchange without money.

3 Barter Problems: Double coincidence, storing value, measuring value.

Evolution: Commodity -> Animal -> Metal -> Paper -> Plastic -> Banking/e-Money.

3 Functions: Medium of Exchange, Store of Value, Measure of Value.

Inflation: Sustained general price rise -> purchasing power falls.

Characteristics: Continuous, broad-based, value of money falls, Keynes full-employment framing.

Demand-Pull: Money supply, government expenditure, population/demand pressure.

Cost-Push: Raw materials, machines, power, wages, transport.

Other Causes: Taxation, import-price rise, scarcity.

EXAM IMPORTANT

Ultra-short memory: Barter fails -> Money solves -> Too much demand or too much cost -> Inflation.

One-Page Master Revision Sheet

Topic	Must Remember
Barter System	Direct exchange without money
Barter Limitations	Mutual wants, storage, measurement
Money Meaning	Generally accepted exchange medium
Money Functions	Medium, Store, Measure
Types of Money	6 textbook types
Inflation	Continuous general price rise
Value of Money	Falls during inflation
Lerner	Excess demand over supply
Pigou	Money income rises faster than real income
Keynes	Full-employment inflation framing
Demand-Pull	Demand rises faster than supply
Cost-Push	Production cost rises
Other Causes	Tax, import prices, scarcity

Have You Mastered This Chapter?

- [ ] I can explain all 3 barter limitations with examples.
- [ ] I can write the evolution of money in order.
- [ ] I can explain all 3 functions of money.
- [ ] I know all 6 textbook types of money.
- [ ] I can define inflation properly.
- [ ] I can explain Lerner, Pigou and Keynes in simple words.
- [ ] I can distinguish demand-pull and cost-push.
- [ ] I can explain all other causes of inflation.

Chapter Glossary

Term	Simple Meaning
Barter System	Direct exchange of goods/services without money.
Double Coincidence of Wants	Both parties simultaneously want what the other offers.
Money	Generally accepted medium performing exchange and value functions.
Medium of Exchange	Money used to buy and sell.
Store of Value	Money used to carry purchasing power into the future.
Measure of Value	Money used as a common unit for prices.
Commodity Money	Goods used as money.
Paper Money	Government-regulated currency notes.
Plastic Money	Card-based bank payment instruments.
Banking / e-Money	Electronic/bank-based money balances and transfers.
Inflation	Sustained general rise in the price level.
Purchasing Power	Amount of goods/services money can buy.
Suppressed Inflation	Inflationary pressure hidden by price controls.
Demand-Pull Inflation	Inflation caused by excess aggregate demand.
Cost-Push Inflation	Inflation caused by rising production costs.
Full Employment	Situation where productive factors are fully/near-fully employed in the textbook's Keynesian explanation.

CHAPTER 3 COMPLETE

Money and Inflation

SMIT SIR'S FINAL MESSAGE

This chapter becomes easy when you connect every idea. Barter failed because exchange was inconvenient. Money solved those problems through its functions. Inflation then explains what happens when the general price level keeps rising and money loses purchasing power.

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