"बेटी बचाओ, बेटी पढ़ाओ" JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

Government of Rajasthan established

Through ACT No. 17 of 2008 as per UGC ACT 1956

NAAC Accredited University

Faculty of Education and Methodology

Faculty Name- JV'n Dr. Md Meraj Alam

Program- BA B.Ed 4th Semester

Course – Money Banking and Public Finance

Digital session name – Types of Monetary Standards: Metallic Standard – Monometallism

A. Metallic Standard:

Under metallic standard, the monetary unit is determined in terms of some metal like gold, silver, etc. Standard coins are made out of the metal. Standard coins are full-bodied legal tender and their value is equal to their intrinsic metallic worth. The important thing to note is that to be on a metallic standard a country must keep – (a) its monetary unit at a constant value in terms of the selected metal, and (b) its various types of money convertible into the selected metal at constant values.

Metallic standard may be of two types:

1. Monometallism

2. Bimetallism.

1. Monometallism:

Monometallism refers to the monetary system in which the monetary unit is made up or convertible to only one metal. Under monometallic standard, only one metal is used as standard money whose market value is fixed in terms of a given quantity and quality of the metal.

Features of Monometallism:

Essential features of monometallic standard are given below:

(i) Standard coins are defined in terms of only one metal.

(ii) These coins are accepted as unlimited legal tender in the discharge of day-to-day obligations.

(iii) There is free coinage (i.e., manufacture of coins) of the metal.

(iv) There are no restrictions on the export and import of metal to be used as money.

(v) Paper money also circulates, but it is convertible into standard metallic coins.

Types of Monometallism:

Monometallism can be of two types:

a. Silver Standard:

Under silver standard, the monetary unit is defined in terms of silver. The standard coins are made of silver and are of a fixed weight and fineness in terms of silver. They are unlimited tender. There is no restriction on the import and export of silver. The silver standard remained in force in many countries for a long period.

India remained on silver standard from 1835 to 1893. During this period, Rupee was the standard coin and its weight was fixed at 180 grains and fineness 11/12. The coinage of the Rupee was free and people can get their silver converted into coins at the mint. Similarly, silver coins could be melted into bullion.

Silver standard lacks universal recognition as compared to gold standard. There is greater instability of both internal and external values of money under silver standard because silver price fluctuates more than that of gold. Thus, as far as the metal is concerned, gold is preferred to silver in most of the countries.

b. Gold Standard:

Gold standard is the most popular form of monometallic standard; the monetary unit is expressed in terms of gold. The standard coins possess a fixed weight and fineness of gold. The gold standard remained widely accepted in most of the countries of the world during the last quarter of the 19th century and the first quarter of the 20th century.

The U.K. was the first country to adopt the gold standard in 1816. She was also the first to abandon this standard in 1931. Germany adopted the gold standard in 1873, France in 1878 and the U.S.A. in 1900. Gradually, gold standard disappeared from different countries and finally it was completely abandoned by the world by 1936.

Gold standard is the most popular form of monometallic standard. Under gold standard, the monetary unit is expressed in terms of gold. The standard coins possess a fixed weight and fineness of gold. The gold standard remained widely accepted in most of the countries of the world during the last quarter of the 19th century and the first quarter of the 20th century. The U.K. was the first country to adopt the gold standard in 1816.

She was also dying first to abandon this standard in 1931. Germany adopted the gold standard in 1873, France in 1878 and the U.S.A. in 1900. Gradually, gold standard disappeared from different countries and finally it was completely abandoned by the world by 1936.

Gold standard has been defined differently by different monetary economists. According to D.H. Robertson, "Gold standard is a state of affairs in which a country keeps the value of its monetary unit and the value of a defined weight of gold at equality with one another." According to Coulborn, "The gold standard is an arrangement whereby the chief piece of money of a country is exchangeable with a fixed quantity of gold of a specific quality."

In the words of Kemmerer, "a gold standard is a monetary system in which the unit of value, in which price and wages are customarily expressed, and in which the debts are usually contracted, consists of the value of a fixed quantity of gold in an essentially free gold market."

Merits of Monometallism:

Monometallic standard has the following advantages:

i. Simplicity:

Since only one metal is used as a standard of value, monometallism is simple to operate and easy to understand.

ii. Public Confidence:

Since the standard money is made of a precious metal (gold or silver), it inspires public confidence.

iii. Promotes Foreign Trade:

Monometallism facilitates and promotes foreign trade. Gold or silver standard is easily acceptable as an international means of payment.

iv. Avoids Gresham's Law:

Monometallism avoids the operation of Gresham's law. According to this law, when both good as well as bad money exist in the economy, bad money tends to drive out of circulation good money.

v. Self-Operative:

It makes the supply of money self-operative. If there is surplus money supply, the value of money will fall and the people will start converting coins into metal. This will wipe out the surplus money, thus creating a balance.

Demerits of Monometallism:

The following are the demerits of monometallism:

i. Costly Standard:

It is a costly standard and all countries, particularly the poor countries, cannot afford to adopt it.

ii. Lacks Elasticity:

Monometallism lacks elasticity. Money supply depends upon the metallic reserves. Thus, money supply cannot be changed in accordance with the requirements of the economy.

iii. Retards Economic Growth:

Economic growth requires expansion of money supply to meet the increasing needs of the economy. But, under monometallism, scarcity of metal may create scarcity of money supply which, in turn, may hinder economic growth.

iv. Lacks Price Stability:

Since the price of the metal cannot remain perfectly stable, the value of money (or the internal price level) under monometallism lacks stability.