



# JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR

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## Faculty of Education and Methodology

**Faculty Name-** JV'n Dr. Md Meraj Alam

**Program-** BA B.Ed 4<sup>th</sup> Semester

**Course – Money Banking and Public Finance**

Digital session name – **Types of Monetary Standards: Metallic Standard – Bimetallism**

### **Bimetallism:**

Bimetallism is a monetary system which attempts to base the currency on two metals. According to Chandler, “A bimetallic or double standard is one in which the monetary unit and all types of a nation’s money are kept at constant value in terms of gold and also in terms of silver.” Under bimetallism two metallic standards operate simultaneously.

Two types of standard coins from two different metals (say gold and silver) are minted. Both the types of standard coins become unlimited legal tender and a fixed ratio of exchange based on mixed ratio of exchange based on mint parity is prescribed for them. Provisions for unlimited purchase, sale and redeem-ability are extended to both metals.

### **Features of Bimetallism:**

- (i) A bimetallic standard is based on two metals; it is the simultaneous maintenance of both gold and silver standards.
- (ii) There is free and unlimited coinage of both metals.
- (iii) The mint ratio of the values of gold and silver at the mint is fixed by the government.

- (iv) Two types of standard coins (i.e., gold coins and silver coins) are in circulation at the same time.
- (v) Both the coins are full-bodied coins. In other words, the face value and the intrinsic value of both the coins are equal
- (vi) Both the coins are unlimited legal tenders. They are also convertible into each other.
- (vii) There is free import and export of both the metals.

### **Merits of Bimetallism:**

The merits of bimetallism are discussed below:

#### **i. Convenient Full-Bodied Currency:**

Bimetallism provides convenient full-bodied coins for both large and small transactions. It provides portable gold money for large transactions and convenient silver money for smaller payments. This argument has, however, lost its force now when credit money has developed.

#### **ii. Price Stability:**

Under this monetary system, the shortage of one metal can be offset by increasing the output of the other metal. Consequently, stability in the prices of both the metals and hence, in the internal prices can be ensured.

#### **iii. Exchange Rate Stability:**

Bimetallism ensures stability of exchange rate. As long as gold and silver are stabilised in terms of each other, the currencies of all countries with fixed values in gold or in silver would exchange for each other at nearly constant rates.

#### **iv. Sufficient Money Supply:**

Under bimetallism, sufficient money supply is assured to meet the trade requirements of the economy. Since there is no question of both metals becoming scarce simultaneously, money supply is more elastic under this system.

#### v. Maintenance of Bank Reserves:

Under bimetallism, the maintenance of bank reserves becomes easy and economical. Under this system, both gold and silver coins are standard coins and unlimited tender. Therefore, it is easy for the banks to keep their cash reserves either in gold coins or in silver coins or in both.

#### vi. Low Interest Rates:

Since, under bimetallism, money is made of two metals, its supply is generally more than its demand. As a result, the interest rates decline. Banks can extend loans at cheaper rates. This would increase investment and hence production in the economy.

#### vii. Stimulates Foreign Trade:

Bimetallism stimulates international trade in two ways, – (a) A country on bimetallism can have trade relations with both gold standard and silver standard countries, (b) There are no restrictions on imports and exports due to the free inflow of both types of coins.

#### Demerits of Bimetallism:

Bimetallism has the following demerits:

##### i. Operation of Gresham's Law:

Bimetallism in a single country is a temporary and not workable monetary standard due to the operation of Gresham's law. According to this law, when there is a disparity between the mint parity rate and the market rate of exchange of the two metals, bad money or the over-valued metal at the mint (whose mint price exceeds market price) tends to drive out of circulation good money or under-valued metal at the mint (whose market price exceeds mint price).

Thus, ultimately, single metal money (monometallism) will remain in practice. Thus, national bimetallism is only a temporary phenomenon. Only international bimetallism can prove permanent and practicable.

ii. Inequality between Mint and Market Rates:

Bimetallism can operate successfully only if the equality between the market rate and the mint rate can be maintained. But, in practice, it is difficult to maintain equality between the two rates, particularly when one metal is oversupplied than the other.

iii. No Price Stability:

The argument that bimetallism ensures internal price stability and there will be an automatic adjustment between supply and demand for money is illusory. There can be a possibility of both the metals to become scarce.

iv. Payment Difficulties:

Bimetallism leads to difficult situation in the settlement of transactions when one party insists on payment in terms of a particular type of coins.

v. Encourages Speculative Activity:

It encourages speculative activity in the two metals when their prices fluctuate in the market.

vi. No Stimulus to Foreign Trade:

International trade is stimulated if all the countries adopt bimetallism. But, this is a rare possibility in the present circumstances.

vii. Costly Monetary Standard:

Bimetallism is a costly monetary standard and all nations, particularly the poor nations, cannot afford to adopt it.