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Money Supply, Money Velocity & Unexploited Resources

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Abstract:-*Suppose there are 3 persons in a society, with one having Re.1, and, he buys something from another person, a good, with that rupee .The cost of production to the second person is nil. Suppose the second person buys something (i.e. a good) with that rupee from the third person, , to whom also the cost of production is nil . Notice we had one rupee in our hand but our GNP has become Rs.3. It proves that, in a society where there is no deficit financing, the more we use the money in money supply, the more will be our GNP. With the help of this theory we can solve all problems of financing a project where there is dearth of money, increase exports and imports, wipe out recession in an economy*

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I. Introduction

In the beginning of human civilization, human beings used barter system. Then currency came into use. Currency was used to buy things. Things were made to sell in exchange of money. In the absence of buying power, production was stopped. This article focuses how production can be done where there is dearth of money supply and there is no deficit financing. It is a financing technique completely different from that used in present days.

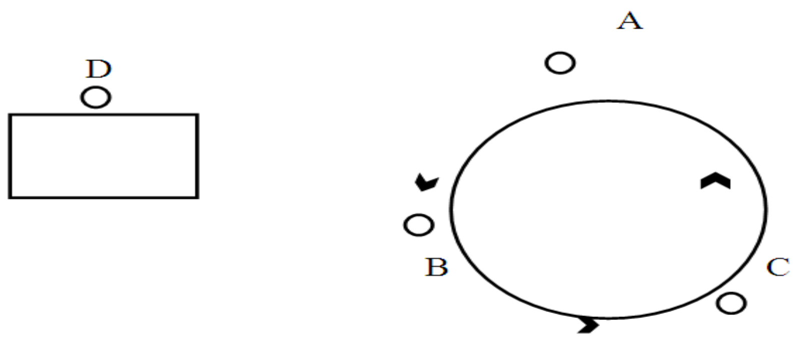
II. Review Of Literature

No literature was reviewed and the article is the author's totally own idea.

III. Research Methodology

The research included use of no books or journals. It is an idea of the author.

IV. Money Supply , Money Velocity & Unexploited Resources



Unexploited Resourses

Let there be 3 persons in a country, A , B & C . Let each of them have a currency note \$ 1 . Let A buy something worth \$ 1 from B , whose cost of production of the goods , excepting his labour , is nil . Again let B buy something with his note from C , whose cost of production , excepting his labour , is nil . Let C do the same thing from A . Let all this happen at a single unit of time . In this case the total GNP of the country , in that single unit of time , is \$ 3 ..

Now let the same thing happen 3 times in that unit of time . Then our GNP , in that unit of time , in the country , comes to \$ 9 .Thus it is proved again that in the absence of deficit financing , the more we use the money supply in a country , if the producers are making a profit , the more will be our GNP .

Now , let there be a discovery of some unexploited resources , in that country . Let there be another person D , who is unemployed (here , unemployed means , a person without work , but willing to work) . Now , let him make a product from that unexploited resource , having no cost of production , excepting his labour only , market price of which is $ 1 . Let him take the product to the market (addition to commodity market) . Let the government give D a freshly printed $1 note (addition to money supply) . Let D buy with the freshly printed note from A his product . Let B buy from D his product in the same way with his note. Let C buy fom B his product in the same with his note . Let A buy fom C his product in the same way with his note . Now our GNP comes to $4 .

There will be no inflation as addition is taking place to the commodity market and money supply at the same time . Thus there will be all growth in GNP , but no inflation . In this way , there will also be no deflation also . Deflation is also an evil to an economy as it hurts the interest of the producers .

The increase in GNP can also be brought about with D producing more , and money velocity increased at the same time . But in this way it will be difficult to control the economy by the government .

It may occur , that D will not work , without immediate pay . In that case the government can impose a tax (or float bonds) and immediately pay D , a percentage of his wage , with the gathered money . Afterwards , the government can pay D , the rest , and lenders and public , with freshly printed money , after D's produce reaches the market . In this way the government can pay D more than the market labour rate and the public a higher rate of interest than that prevailing in the market , depending on the value of the unexploited resources .

In the above technique there will be growth and only growth , without any inflation or deflation , or , recession . there will be employment for the unemployed .

Excess usage of resources , being already utilized , can also be treated as exploitation of unexploited resouces . For example , if present production in a coal mine is 1 million tonnes , and production is increased by half a million tonnes , and money supply or money velocity increased , in the above mentioned technique , it will yield the same good results .

In the Indian state of Gujarat , there is a shallow stretch of water , called the Rann of Kutch , where the water is too shallow for ships and too deep for army tanks . Suppose we sprinkle fertilized fish eggs through fishermen who are not paid immediately . When the fishes come out of the eggs and become big , let them be caught and taken to the market by the fishermen . Then let the fishermen be paid the value of the fish , addition to money supply and commodity market happening at the same time . In that case the country will have more fish to eat , and unemployed or under employed fishermen will have more money to meet their expenses . There will be no deflation , as a dip in prices is against the interest of the fishermen . There will be no inflation as more production is taking place .

4.1.**Export and Import :-**

Suppose there are two countries A & B .They enter into a pact to exploit unexploited resources in the above mentioned technique. The produce from country A (produced out of unexploited resources there by unemployed persons) is exported to country B & produce from country B (produced out of unexploited resources there by unemployed persons) is imported to country A . When the imports arrive at the destination , the unemployed persons are paid (money supply and goods in the market being increased at the same time

4.2.Reccession :-

Ressession takes place due to fall in profits of ongoing organisations . This is due to the fall in prices of their produce . Due to addition in money supply and goods supply at the same time , as in the above technique , there can be no deflation (or inflation) . As a result there will ba no recession . The country can choose a definite level of GNP .and stick to that. A lot depends on the value of the unexploited resources .

4.3.Note :-

This financing technique is best usable in case of short gestation period projects (where labour does not have to wait too long for payment) and the value of unexploited resources is high .

V. Conclusion :-

This financing technique helps to finance projects of exploiting unexploited resources when there is dearth of finance. However how much a country can gain out of this financing technique depends on how much unexploited resources a country has and existence of unemployed people willing to work .

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