**Unit-3**

What is money?

**Money is** something generally accepted as a medium of exchange, a measure of value, or a means of payment. In the modern monetary systems, there are three forms of money in actual use: (i) Metallic Money, (ii) Paper Money, and (iii) Credit Money.

The first two kinds of money are in the form of currency money and the last one is credit or bank money.

(1)**Metallic money**- refers to coins made out of various metals like gold, silver, bronze, nickel, etc. A coin is a piece of metal of a given size, shape, weight and fineness whose value is certified by the State.



(2) Paper money- consists of currency notes issued by the State Treasury or the Central Bank of the country. In India, one rupee notes are issued by the Minister of Finance of the Government of India, while all other currency notes of higher denominations are issued by the Reserve Bank of India.



(3) Credit Money-In modern economic societies, with the development of banking activity, along with paper money, another form of convertible money has developed in the form of credit money or bank money.

Bank demand deposits, withdrawal by issuing cheques, have started functioning as money, and cheques are now conventionally accepted as a mode of payment by the business community in general. It must be noted that a cheque by itself is just a credit instrument. Actually it is the bank deposit behind the cheque that serves as money.



**Barter system**

**Barter** is a system of exchange by which [goods](http://en.wikipedia.org/wiki/Good_(economics)) or [services](http://en.wikipedia.org/wiki/Service_(economics)) are directly exchanged for other goods or services without using a [medium of exchange](http://en.wikipedia.org/wiki/Medium_of_exchange), such as [money](http://en.wikipedia.org/wiki/Money).



**Drawbacks of barter system**

1 .**Difficulty of double coincidence of wants**  
Double coincidence of wants implies that goods in the possession of two different individuals must be useful and needed by each other.

2 .**Lack of common unit of value**  
 We can't develop any system of account when there is no common unit of value and when commodity is valued in terms of other commodities in the market and there is no money valued.  
3. **Lack of a system for future payments or contractual payments**  
Contractual payments or future payments would certainly be very difficult under barter system of exchange.  
4. **Lack of system for storage of value**  
 Because of lack of money in the economy or barter economy wealth is stored in terms of goods. However store of wealth in terms of goods is subject to some problems such as cost of storage loss of value etc.

**Cowrie Shells**- Long before our era the cowry shell was known as an instrument of payment and a symbol of wealth and power. This monetary usage continued until the 20th century. It became means of payments and eventually became in some cases huge competitors of metal currencies. All characteristics of money, i.e. durability, handiness or convenience, recognizability and divisibility are embodied in these small shells. They are small and very easy to transport, easy handling and their alluring form and looks offer them a perfect protection against forgery. Besides, counting was not always absolutely necessary. As the shells almost all had the same shape and size weighing often sufficed to determine the value of a payment. It became the most commonly used means of payment of the trading nations of the Old World. The cowry was accepted in large parts of Asia, Africa, Oceania and in some scattered places in Europe.

**Functions of money**

**1. Medium of exchange**: Money can be used for buying and selling goods and services. If there were no money, goods would have to be exchanged through the process of barter (goods would be traded for other goods in transactions arranged on the basis of mutual need). For example: If I raise chickens and want to buy cows, I would have to find a person who is willing to sell his cows for my chickens. Such arrangements are often difficult. But Money eliminates the need of the double coincidence of wants.

**2. Unit of account**: Money is the common standard for measuring relative worth of goods and service. Money works as unit of value or standard of value. In barter economy it was very difficult to decide as to how much volume of goods should be given in exchange of a given quantity of a commodity.

**3. Store of value**: Money is the most liquid asset (Liquidity measures how easily assets can be spent to buy goods and services). Money’s value can be retained over time. It is a convenient way to store wealth.

4. **Standard of Deferred Payments:** Modern economic setup is based on credit and credit is paid in the form of money only. In reality the significance of credit has increased so much that it will not be improper to call it as the foundation stone of modem economic progress. Money, besides being the basis of current transactions, is also the basis of deferred payments. Only money is such a commodity in whose form accounts of deferred payments can be maintained in such a way so that both creditors and debtors do not stand to lose.

**Commercial banks**

A **commercial bank** is a type of [bank](http://en.wikipedia.org/wiki/Bank) that provides services, such as accepting deposits, giving business loans and basic investment products. Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to individual members of the public ([retail banking](http://en.wikipedia.org/wiki/Retail_banking)). [](http://www.google.com/imgres?start=106&sa=X&biw=1080&bih=398&tbm=isch&tbnid=6A3gg7QQjx8ygM:&imgrefurl=http://abfjournal.com/articles/final-cut-bank-competition-spurs-asset-based-loan-boom/&docid=CIaHmBaqFDKMhM&imgurl=http://abfjournal.com/wp-content/uploads/2011/10/FinalCut-fastfoodbank.png&w=600&h=572&ei=8qkyUs_RMsKPrQfvuoG4Bw&zoom=1&ved=1t:3588,r:11,s:100,i:37&iact=rc&page=12&tbnh=184&tbnw=195&ndsp=12&tx=104&ty=76)

The main functions of commercial banks are accepting deposits from the public and advancing them loans.

1. **Accepting Deposits:**

The most important function of commercial banks is to accept deposits from the public. Various sections of society, according to their needs and economic condition, deposit their savings with the banks.

For example, fixed and low income group people deposit their savings in small amounts from the points of view of security, income and saving promotion. On the other hand, traders and businessmen deposit their savings in the banks for the convenience of payment.

Therefore, keeping the needs and interests of various sections of society, banks formulate various deposit schemes. Generally, there ire three types of deposits which are as follows:

(i) **Current Deposits:**

The depositors of such deposits can withdraw and deposit money when­ever they desire. Since banks have to keep the deposited amount of such accounts in cash always, they carry either no interest or very low rate of interest. These deposits are called as Demand Deposits be­cause these can be demanded or withdrawn by the depositors at any time they want.

Such deposit ac­counts are highly useful for traders and big business firms because they have to make payments and accept payments many times in a day.

(ii) **Fixed Deposits:**

These are the deposits which are deposited for a definite period of time. This period is generally not less than one year and, therefore, these are called as long term deposits. These deposits cannot be withdrawn before the expiry of the stipulated time and, therefore, these are also called as time deposits.

These deposits generally carry a higher rate of interest because banks can use these deposits for a definite time without having the fear of being withdrawn.

(iii) **Saving Deposits:**

In such deposits, money upto a certain limit can be deposited and with­drawn once or twice in a week. On such deposits, the rate of interest is very less. As is evident from the name of such deposits their main objective is to mobilise small savings in the form of deposits. These deposits are generally done by salaried people and the people who have fixed and less income.

2. **Lending:**

The second important function of commercial banks is to advance loans to its customers. Banks charge interest from the borrowers and this is the main source of their income. Banks advance loans not only on the basis of the deposits of the public rather they also advance loans on the basis of depositing the money in the accounts of borrowers. In other words, they create loans out of deposits and deposits out of loans. This is called as credit creation by commercial banks.

Modern banks give mostly secured loans for productive purposes. In other words, at the time of advancing loans, they demand proper security or collateral. Generally, the value of security or collateral is equal to the amount of loan. This is done mainly with a view to recover the loan money by selling the security in the event of non-refund of the loan.

At limes, banks give loan on the basis of personal security also. Therefore, such loans are called as unsecured loan. Banks generally give following types of loans and advances:

(i) **Cash Credit:**In this type of credit scheme, banks advance loans to its customers on the basis of bonds, inventories and other approved securities. Under this scheme, banks enter into an agreement with its customers to which money can be withdrawn many times during a year. Under this set up banks open accounts of their customers and deposit the loan money. With this type of loan, credit is created.

(ii) **Demand loans:** These are such loans that can be recalled on demand by the banks. The entire loan amount is paid in lump sum by crediting it to the loan account of the borrower, and thus entire loan becomes chargeable to interest with immediate effect.

(iii) **Short-term loan:** These loans may be given as personal loans, loans to finance working capital or as priority sector advances. These are made against some security and entire loan amount is transferred to the loan account of the borrower.

(iv). **Over-Draft:** Banks advance loans to its customer’s upto a certain amount through over-drafts, if there are no deposits in the current account. For this banks demand a security from the customers and charge very high rate of interest.

3. **Agency Functions:**

Banks function in the form of agents and representatives of their customers. Customers give their consent for performing such functions. The important functions of these types are as follows:

1. Banks collect cheques, drafts, bills of exchange and dividends of the shares for their custom­ers.
2. Banks make payment for their clients and at times accept the bills of exchange: of their cus­tomers for which payment is made at the fixed time.

(iii) Banks pay insurance premium of their customers. Besides this, they also deposit loan instalments, income-tax, interest etc. as per directions.

(iv) Banks purchase and sell securities, shares and debentures on behalf of their customers.

(v) Banks arrange to send money from one place to another for the convenience of their custom­ers.

(vi) For facilitating foreign trade, banks undertake to sell and purchase foreign exchange.

(vii) Banks issue letters of credit.

4. **Miscellaneous Functions:**

Besides the functions mentioned above, banks perform many other functions of general utility which are as follows:

(i) Banks make arrangement of lockers for the safe custody of valuable assets of their custom­ers such as gold, silver, legal documents etc.

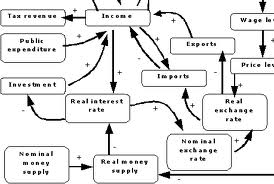
(ii) Banks give reference for their customers.

(iii) Banks collect necessary and useful statistics relating to trade and industry.

(iv) During natural calamities, banks are highly useful in mobilizing funds and donations.

**Central Banks**

A **central bank**, **reserve bank**, or **monetary authority** is an institution bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency. Central banks also usually oversee the [commercial banking system](http://en.wikipedia.org/wiki/Commercial_bank) of their respective countries. In contrast to a commercial bank, a central bank possesses a [monopoly](http://en.wikipedia.org/wiki/Monopoly) on increasing the [amount of money](http://en.wikipedia.org/wiki/Monetary_base) in the nation, and usually also prints the national currency, which usually serves as the nation's [legal tender](http://en.wikipedia.org/wiki/Legal_tender). Examples include the [European Central Bank](http://en.wikipedia.org/wiki/European_Central_Bank) (ECB) and the [Federal Reserve](http://en.wikipedia.org/wiki/Federal_Reserve) of the United States.



In the developing countries, the central bank has to play a much wider role. Besides performing the traditional functions, the central bank has to undertake responsibility of economic growth with stability in these economies. Moreover, since the developing countries do not have well- organised money and capital markets, the central bank has a crucial function to develop the banking and financial system of the country. The central bank performs the following functions.

**1.Traditional Functions:**

The traditional functions of the central bank are: having the monopoly of printing the notes and minting the coins; acting as banker to the government; serving as bankers' bank; functioning as the lender of the last resort; controlling and regulating the credit; and maintaining the external stability. It also destroys torn notes and worn-out coins.

**2. Economic Growth:**

The central banks aim at promoting the process of economic growth. Economic growth requires sufficient financial resources. The central bank can ensure adequate monetary expansion in the country. **Monetary policy** is the process by which the [monetary authority](http://en.wikipedia.org/wiki/Monetary_authority) of a country controls the [supply of money](http://en.wikipedia.org/wiki/Supply_of_money), often targeting a rate of [interest](http://en.wikipedia.org/wiki/Interest) for the purpose of promoting [economic](http://en.wikipedia.org/wiki/Economy) growth and stability.

**3. Internal Stability:**

Along with the objective of economic growth, the central bank should also attempt to maintain internal price stability. The developing countries are susceptible to inflationary pressures mainly due to supply -inelasticities in the short period. The central bank should adopt such a monetary policy thatcancontrol inflationary tendencies and ensure price stability.

**4.Government tax revenue and expenditure**

Most of it is carried through the accounts with the central bank.

**5. Manages the International Finance system**

To deal business around the world generally there should be acceptable methods to make international transaction. For this IMF was set up to provide supervision for the world’s banking system. Government they borrow money from IMF at times of financial crisis. For this reason countries deposit their gold and currency with IMF. Central bank officials meet with IMF to create economic stability and for better financial system.

6**. Borrowing through bills and bonds**

Central bank helps government to raise funds by issuing bonds and government bills. These investments are repaid in future by the government. Most of the financial institutions and investors find investment in government bonds and treasury bills as safe investment. They get interest paid on their investment. The total amount the government owes to the lenders is called the national debt.



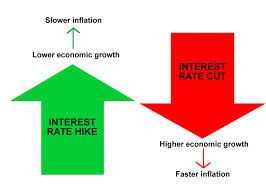
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**7. Development of Financial Institutions:**

Development of the leading sectors of the economy suchas agriculture, industry, foreign trade, etc. requires long-term finances. For this, the specialisedfinancial institutions should be established which provide term-loans to these sectors.

**8. Proper Interest Rate Structure:**

The central bank can help in establishing a suitable interest rate structure to influence the direction of investment in the country. In underdeveloped countries, a policy of low interest rate is necessary for encouraging investment and promoting development activities. Again, by adopting different interest rates, the central bank can increase productive investment and discourage un­productive investment.



9. **Lender of Last Resort**

This means that the central bank is the lender (provider of liquidity) of last resort (if there is no other way to increase the supply of [liquidity](http://en.wikipedia.org/wiki/Liquidity) when there is a lack thereof). The function has been performed by many central banks since the beginning of the 20th century. The goal is to prevent financial panics and [bank runs](http://en.wikipedia.org/wiki/Bank_runs) spreading from one bank to the next due to a lack of liquidity.

**10. Other Promotional Roles:**

The central bank can provide a number of other promotional facilities. For example, (a) it can adopt policies to provide help to the various priority sectors, such as agriculture;, cooperative sector, small scale sector, export sector, etc. (b) it can provide guidelines to be followed by the planners about some definite patterns of economic and investment policies.

Stock exchanges

An exchange is an institution, organization, or association which hosts a market where stocks, bonds, options and futures, and commodities are traded.  Buyers and sellers come together to trade during specific hours on business days.  Exchanges impose rules and regulations on the firms and brokers that are involved with them.  If a particular company is traded on an exchange, it is referred to as "listed".

The first stock exchange was opened in Amsterdam in 1602; the three largest exchanges in the world are (in the descending order) [New York Stock Exchange (NYSE)](http://www.businessdictionary.com/definition/New-York-Stock-Exchange-NYSE.html), [London Stock Exchange (LSE)](http://www.businessdictionary.com/definition/London-Stock-Exchange-LSE.html), and the [Tokyo Stock Exchange (TSE)](http://www.businessdictionary.com/definition/Tokyo-Stock-Exchange-TSE.html). On modern exchanges, trades are conducted over [telephone](http://www.businessdictionary.com/definition/telephone.html) or [online](http://www.businessdictionary.com/definition/online.html). But, in some exchanges are still made by verbal bids and offers. The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market.

Stock exchange is only open to the members of exchange also known as brokers. Brokers act as an agent of the buyers and sellers of shares, debentures and bonds. In a stock exchange, transactions take place between members or their authorized agents on behalf of the investors. Companies which want their securities to be traded on the floor of a stock exchange have to fulfil certain conditions. The stock exchange satisfies itself about the genuineness and soundness of the company to protect the investors from being cheated. Exchanges maintain records at a central location of such securities but now the trade is increasingly moving from physical places to electronic networks enabling speed and reducing cost. Stock exchange indicates about the good or bad health of economy. If the share prices are rising it means country is running on the path of development and prosperity.

**Functions of Stock exchange**

### Importance or Functions of Stock Exchange : We discuss about major functions of stock exchange under these headings:- 1. Providing a ready market The organization of stock exchange provides a ready market to speculators and investors in industrial enterprises. It thus, enables the public to buy and sell securities already in issue. 2. Providing a quoting market prices It makes possible the determination of supply and demand on price. The very sensitive pricing mechanism and the constant quoting of market price allows investors to always be aware of values. This enables the production of various indexes which indicate trends etc. 3. Profit sharing

### Both casual and professional [stock investors](http://en.wikipedia.org/wiki/Stock_investor), as large as [institutional investors](http://en.wikipedia.org/wiki/Institutional_investors) or as small as an ordinary middle-class family, through [dividends](http://en.wikipedia.org/wiki/Dividend) and [stock price](http://en.wikipedia.org/wiki/Stock_price) increases that may result in [capital gains](http://en.wikipedia.org/wiki/Capital_gain), share in the wealth of profitable businesses. Unprofitable and troubled businesses may result in [capital losses](http://en.wikipedia.org/wiki/Capital_loss) for shareholders.

**4. Safeguarding activities for investors**  
**The stock exchange renders safeguarding activities for investors which enables them to make a fair judgment of a securities. Therefore directors have to disclose all material facts to their respective shareholders. Thus innocent investors may be safeguard from the clever brokers.**  
  
**5. Checking functions  
New securities checked before being approved and admitted to listing. Its members controlled under rigid set of rules designed to protect the general public and its members.  
  
6. Maintenance of liquidity**  
**The bank and insurance companies purchase large number of securities from the stock exchange. These securities are marketable and can be turned into cash at any time. Therefore banks prefer to keep securities instead of cash in their reserve It facilities the banking system to maintain liquidity by procuring the marketable**[**securities**](http://www.studypoints.blogspot.com/)**.**  
**7. Promotion of the habit of saving**  
**Stock exchange provides a place for saving to general public. Thus it creates the habit of thrift and investment among the public. This habit leads to investment of funds incorporate or government securities. The funds placed at the disposal of companies are used by them for productive purposes.  
  
8. Increasing Govt. Funds**  
**The govt. can undertake projects of national importance and social value by raising funds through sale of its securities on stock exchange.**

**Choice of occupation**

There are different types of occupation, each having its own conditions of work.

Every company needs a strategic reward system for employees that addresses these four areas: compensation, benefits, recognition and appreciation. The problem with reward systems in many businesses today is twofold: They're missing one or more of these elements (usually recognition and/or appreciation), and the elements that *are* addressed aren't properly aligned with the company's other corporate strategies.

A winning system should recognize and reward two types of employee activity-performance and behaviour. Performance is the easiest to address because of the direct link between the initial goals you set for your employees and the final outcomes that result. For example, you could implement an incentive plan or recognize your top salespeople for attaining periodic goals.

When employed by a person or organization, wages are paid to compensate you for your labor. Wages are determined by an agreement between you and your employer as well as by existing labor laws. Those who are self-employed do not receive wages directly; instead, revenue is generated by the sale of products on the open market.

Wage-A wage is [remuneration](http://en.wikipedia.org/wiki/Remuneration) paid by an [employer](http://en.wikipedia.org/wiki/Employer) to an [employee](http://en.wikipedia.org/wiki/Employee). It may be calculated as a fixed task based amount, or at an hourly rate, or based on an easily measured quantity of work done. It is contrasted with [salaried work](http://en.wikipedia.org/wiki/Salary), which is based on a fixed time period and with [commission](http://en.wikipedia.org/wiki/Commission_(remuneration)) which is based on performance.

**Wage factors**

The employee considers the basic salary and other incentives before choosing an occupation.

**Basic Salary**-Base salary is a fixed [amount](http://www.businessdictionary.com/definition/amount.html) of [money](http://www.businessdictionary.com/definition/money.html) paid to an employee by an [employer](http://www.businessdictionary.com/definition/employer.html) in [return](http://www.businessdictionary.com/definition/return.html) for [work performed](http://www.businessdictionary.com/definition/work-performed.html). Base salary does not include [benefits](http://www.businessdictionary.com/definition/benefit.html), bonuses or any other potential compensation from an employer.

**Earnings**-**Personal income** is an individual’s total earnings from wages, bonuses, overtime and commission.

**Overtime**-Overtime is the amount of time someone works beyond normal working hours. Most nations have overtime [labor laws](http://en.wikipedia.org/wiki/Labor_law) designed to dissuade or prevent employers from forcing their employees to work excessively long hours. Companies may choose to pay workers higher overtime pay even if not obliged to do so by law, Overtime pay rates can cause workers to work longer hours than they would at a flat hourly rate.

**Bonus-** Additional compensation given to an employee above his/her normal wage. A bonus can be used as a reward for achieving specific goals set by the company, or for dedication to the company.

**Commission**-The [amount](http://www.businessdictionary.com/definition/amount.html) of [money](http://www.businessdictionary.com/definition/money.html) that an [individual](http://www.businessdictionary.com/definition/individual.html) [receives](http://www.businessdictionary.com/definition/receive.html) based on the level of [sales](http://www.businessdictionary.com/definition/sales.html) he or she has [obtained](http://www.businessdictionary.com/definition/obtain.html). The [sales person](http://www.businessdictionary.com/definition/salesperson.html) is provided a certain amount of money in [addition](http://www.businessdictionary.com/definition/addition.html) to his/her [standard](http://www.businessdictionary.com/definition/standard.html) [salary](http://www.businessdictionary.com/definition/salary.html) based on the amount of sales obtained.A commission is generally a percentage of the sales price of an item. For example, if a salesperson receives a 10% commission on their sales and sells $1500 worth of merchandise, they would earn $150 in commissions.  
  
**Non-wage factors-** Non –wage factors also have high influence in choosing an occupation

**Job Satisfaction** - "Job satisfaction is defined as "the extent to which people like (satisfaction) or dislike (dissatisfaction) their jobs"

#### KEY POINTS

* Job [satisfaction](https://www.boundless.com/management/definition/satisfaction/) can be influenced by a person's ability to complete required tasks, the level of [communication](https://www.boundless.com/management/definition/communication--2/) in an [organization](https://www.boundless.com/management/definition/organization/), and the way management treats employees.
* It isn't always easy to measure [job satisfaction](https://www.boundless.com/management/definition/job-satisfaction/) as the definition of satisfaction can be different for different people.
* If an organization is concerned about job satisfaction of their employees, management may want to [conduct](https://www.boundless.com/management/definition/conduct/) surveys to determine what type of strategies to [implement](https://www.boundless.com/management/definition/implement/).

**Career Prospects**- Job prospects are the expectation of a job being available and/or the likelihood of a person obtaining that position. The two main factors involved are the abilities and qualifications of the individual and the possibility of any specific job being available. E.g from vice-principal u get a chance to become principal.

**Fringe Benefits-** A fringe benefit is generally defined as a benefit not being salary, wage or other cash remuneration, derived from employment. The benefits and services to be included under the title ’fringe benefits are numerous.

Some examples are housing (employer-provided or employer-paid), group insurance (health, dental, life etc.), disability income protection, retirement benefits, daycare, payment of school fees for the children of company employees, vacation (paid and non-paid), free transportation to and fro their office.:

**Entry to the workforce**



Every person chooses an occupation and expect to grow in life. Whenever a person starts his career they have only few skills so they start from lower position . Then with a span of time his skills starts becoming perfect and gets a chance to promote to a higher level and get higher salary. But later on wages may fall if an employee fails to update themselves with new skills, or they are tardy or lazy in performing their duties. Offcourse, experience matters a lot. But sometimes when you change your job you might not get the same position as you were holding in your last company. You might get higher position and good remuneration package or u might have to start again from a lower position in the new company. Sometimes employees who do not keep themselves up to date with changing technologies might end end up their career forever.

In some professional or management courses students they are suppose to do the apprenticeship program in which they work under the employees of the company to have an experience of their job in future. The trainees are sometimes asked to work in different departments to have proper knowledge of that organization. There is always high demand for skilled workers. Employers they provide higher wages or provides good incentives to attract skilled workers in his company. Due to their training sometimes the trainees get into higher position in the company directly.

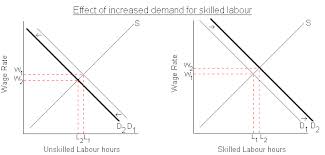
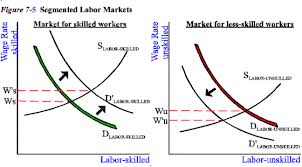


Figure –A Figure- B

In the above figure A the demand for unskilled workers is falling, leading to fall in their wages. And in figure b you can see increasing demand for skilled workers leading to rise in their wages.

The earnings vary between different occupational group

1. Skilled and Unskilled Workers

  
 *figure-1 figure-2*

In the above figure -1 the supply curve for skilled workers is inelastic, whereas in figure 2 you can see the supply curve of unskilled workers is elastic. Unskilled labor can be easy available and replaced so the supply curve is elastic. But in case of skilled workers is not like that they are always in short supply so the supply curve is steep.

2. Private and public sector

In most of the countries like US, India the income earned by the workers in public sector than in private sector. In public sectors workers even gets more fringe benefits than in private sector.

3. difference in pay

Another reason for difference in occupation is high level of education and professional training required to work in public sector undertakings. Other reason might be trade union. Trade union they have strong bargaining power specially in public sector undertaking. .

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### The wage gap is a statistical indicator often used as an index of the status of women's earnings relative to men's. The wage gap is expressed as a percentage (e.g., in 2012, women earned 80.9% as much as men aged 16 and over) and is calculated by dividing the median annual earnings for women by the median annual earnings for men. The most basic way to look at differences in pay between the genders is to look at the median wages of men and women. However, this comparison is of limited usefulness because men and women exhibit very different characteristics for many of the factors that affect pay. For example, men tend to choose fields with higher average pay, and tend to work more hours per week. Because of these differences in order to determine what effect discrimination has upon the wages of men and women in the workplace the differences in career choices must be accounted for.

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**Derived demand**

**Derived demand** is a term in economics, where [demand](http://en.wikipedia.org/wiki/Demand) for a [factor of production](http://en.wikipedia.org/wiki/Factor_of_production) or [intermediate good](http://en.wikipedia.org/wiki/Intermediate_good) occurs as a result of the demand for another intermediate or [final good](http://en.wikipedia.org/wiki/Final_good). In other words, if the demand for a good such as wheat increases, then the productivity increases, which leads to an increase in labour. This may occur as the former is a part of production of the second. For example, demand for coal leads to derived demand for mining, as coal must be mined for coal to be consumed. As the demand for coal increases, so does its price. The increase in price leads to a higher demand for the resources involved in mining coal.

**Trade Union**  
A trade union is an organisation made up of members (a membership-based organisation) and its membership must be made up mainly of workers. One of a trade union's main aims is to protect and advance the interests of its members in the workplace.

Most trade unions are independent of any employer. However, trade unions try to develop close working relationships with employers. This can sometimes take the form of a partnership agreement between the employer and the trade union which identifies their common interests and objectives.

Trade unions:

* negotiate agreements with employers on pay and conditions
* discuss major changes to the workplace such as large scale redundancy
* discuss their members; concerns with employers
* accompany their members in disciplinary and grievance meetings
* provide their members with legal and financial advice
* provide education facilities and certain consumer benefits such as discounted insurance

**Specialisation**

Specialisation is when the production process is split up into different tasks and each worker performs one of these tasks.

In the process of producing cars, there will be a high degree of labour specialisation.

* Some workers will design the cars
* Some will work on testing cars
* Some will work on marketing
* Some workers will work on different sections of the assembly line. Their job may be highly specific such as putting on tyres e.t.c.
* The various advantages of division of labour are gives below:
* **1. Right person in the right Job:**
* Every worker is assigned the task for which he is best suited. This helps to provide, opportunities for the best utilisation of natural talents as a person performs the job which he likes he gets pleasure in work.
* **2. Greater Efficiency:**
* Division of labour helps to increase the efficiency of workers due to two reasons. First, every worker is assigned a job that suits his skills, experience, training and aptitude.
* Right man in the right job leads to higher output. Secondly, due to division of labour, a worker continuously repeats his work. He becomes an expert in performing the job Repetition of the same work improves his dexterity and skills.
* **3. Better Quality of Work:**
* Division of labour not only increases the quantity of work it also improves the quality of production. Better and modern machines and equipment are used. Better quality products help to increase the goodwill and profits of business.
* **4. Saving of time:**
* Division of labour helps to avoid waste of time and effort caused by changes from one type of work to another. The worker does not have to shift from one process to another.
* **5. Economies of large scale production:**
* Division of labour facilitates mass production. Large scale production provides economies in the use of resources, such as raw materials, labour, tools etc. Optimum use of means of production helps to reduce cost of production.
* **6. Less learning period:**
* Under division of labour a worker needs to learn only a part of the whole task. Therefore, lesser time and expenditure is involved in training workers.
* **7. Inventions and Innovations:**
* A worker doing the same task again and again tries to find new and better ways of doing the job. Small and simple parts of a task can easily be done by machines. Thus, division of labour increases scope for inventions and innovations.
* **8. Less Strain:**
* Division of labour makes tasks small and simple Workers can perform them without much strain and physical tiredness is reduced. Less skilled labour is required to perform the divided and sub-divided tasks.
* **9. Wider Market:**
* Division of labour makes available cheaper goods of a wide variety. As a result demand for goods and services increases.
* **10. Benefits to society:**
* Society is benefited due to (a) reduced cost on account of large scale production (b) higher productivity which leads to economic growth (c) employment of unskilled workers and (d) better quality of goods and services for consumers.
* Division of labour suffers from the following drawbacks
* **1. Monotony in work:**
* A worker has to do the same small task again and again. Therefore, the job becomes boring and the worker loses interest in his work. Boredom and monotony create mental fatigue which ultimately spoils the quality of work.
* **2. Lack of responsibility:**
* A worker performs only a part of the total job. Therefore, no individual can be held responsible if anything goes wrong. It is very difficult to fix responsibility for defect in the product.
* **3. Greater interdependence:**
* Job, work processes and industries become increasingly inter dependent due to division of labour. Any problem or defect in one part may cause disturbance and dislocation in the entire process of production.
* **4. Loss of job pride:**
* Since every worker produces only a small part of the product, he cannot take pride in ultimate result. Loss of sense of job satisfaction reduces the involvement of employees.
* **5. Reduced mobility of labour:**
* Since every worker specializes in one type of work, he may find it difficult to procure a job in case of unemployment.
* **6. Retarded personality:**
* Repetition of the same task again and again leads to intellectual dullness. It kills the initiative and weakens the desire to learn. As a result the development of physical and intellectual personality of a worker may be retarded.
* **7. Decline in craftsmanship:**
* Division of labour and consequent mechanisation of work reduces the role of worker in the production process. The tradition of craftsmanship may decline and the creative instincts of workers may remain unsatisfied.
* **8. Pollution of environment:**
* Division of labour leads to large scale production in factories. This leads to pollution of air, water and land. Slums develop near industrial areas.

Saving

Saving is putting away or storing money for future use. Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in a bank or pension plan.

Saving Ratio

The amount of money, expressed as a percentage or ratio, that one deducts from his/her disposable personal income to set aside as a nest egg or for retirement.

Spending

Spending is to pay money, usually in exchange for goods and services. It includes money spent on consumer durables as well like television, dvd’s, ipod.

Motives for spending

The main influence on the amount spent by a person or household is disposable income. As income rises, people usually spend more in total but less as a percentage of their disposable income. Among the other factors influencing magnitude of expenditure are wealth, confidence, the rate of interest, the distribution of income and advances in technology.

Income

The amount of money or its equivalent received during a period of time in exchange for labour or services, from the sale of goods or property, or as profit from financial investments.

Borrowing

Borrowing is receiving something in exchange for an obligation to return it or give something else of usually greater value at a particular time in future. It is both a social and a business practise. In business one could borrow money from friends, relatives or financial institutions. Money borrowed and returned without interest is called a soft loan while that which attracts interest is a hard loan. When interest rates are low, people are encouraged to borrow more.