The structure of money supply in India consists of currency with the public and deposit money. The money supply with the public does not include time deposits of banks. However, these are included in the aggregate monetary resources. Money supply with the public is computed by the aggregation of the net bank credit to government, bank credit to commercial banks, net foreign exchange assets of the banking sector and government currency liabilities to the public. A deduction out of this aggregate is made on account of the non-monetary liabilities of the banking sector.

The net bank credit to government sector is computed by summing up R.B.I's net credit to government sector and other banks' credit to government. The bank credit to the commercial sector is estimated by adding up R.B.I's credit to commercial sector and other banks' credit to commercial sector. The non-monetary liabilities of the banking sector consist of time deposits of banks, net non-monetary liabilities of R.B.I. and other net non-monetary liabilities of commercial and co-operative banks.

The Reserve Bank had been earlier publishing four alternative measures of money supply. These four measures of money supply were as under :

$$M_1 = C + DD + OD$$

where C = currency, DD = demand deposits and OD = other deposits of the RBI as are in the nature of demand deposits.

$M_2 = M_1 +$ Saving deposits with post office saving banks.

$M_3 = M_1 +$ Net time deposits with banks.

$M_4 = M_3 +$ All types of deposits with post offices–National Saving Certificates.

Out of these four measures, M_1 had the greatest degree of liquidity. Other measures had liquidity in the descending order with M_4 having the lowest degree of liquidity.

During the recent years, the RBI has adopted three monetary parameters of the money stock. These are Reserve Money (M_0), Narrow Money (M_1) and Broad Money (M_3).

Components of Reserve Money (M_0) are, (*i*) Currency in circulation, (*ii*) Banker's deposits with the RBI and (*iii*) Other deposits with the RBI.

Components of Narrow Money (M_1) are, (*i*) Currency with the public and (*ii*) Deposit money of the public.

Components of Broad Money (M_3) are, (*i*) Currency with the public, (*ii*) Demand deposits with banks, (*iii*) Time deposits with banks and (*iv*) Other deposits with the RBI.

There is a marked preference during the recent years on the part of RBI for M_3 over M_1 as a measure of money supply. The superiority of M_3 over M_1 is on account of several reasons. *First*,

M_3 is a broad measure of money supply, whereas M_1 is a very narrow conception of it. *Second,* M_3 does not suffer from the flaw of arbitrary division of saving deposits between the demand deposits and time deposit components. *Thirdly,* from the credit budgeting viewpoint, M_3 is better than M_1 because total bank credit is closely connected with total deposits and not merely the demand deposits of banks. *Fourthly*, M_3 is preferable to M_1 on empirical grounds. The Chakarvarty Committee also indicated its preference for M_3 over M_1.