(*b*) How money comes into existence: (1) Metallic money comes into existence by being dug from the earth and minted.

(2) Bank-notes come into existence by being issued by banks, in accordance with the law of the land and under proper safeguards, and on a basis representing tangible value.

(3) Cheque currency comes into existence by being drawn by the spender on a bank or other firm which accepts deposits or makes advances that may be operated on by means of cheques.

(4) Government money (*e.g.*, Bradbury's) comes into existence by being issued by a Government Treasury Department.

Bank-notes in circulation are almost invariably backed to the full extent of their issue by gold and/or securities.

In English-speaking countries cheque currency forms the bulk of the circulating medium; cheque currency arises out of claims on banks or other firms by the drawers of the cheques. Claims on a bank entitling customers to draw cheques may arise from the following sources:—

(1) The deposit of gold, or token coins on current account.
(2) The deposit of notes of that bank or of another bank or banks on current account.
(3) The paying of cheques or other negotiable instruments into current account.
(4) The obtaining of a loan from the bank on current account. Such loans are usually backed by security lodged by the borrower over tangible evidences of real wealth—*e.g.*, land, buildings, or marketable goods or securities. Such cheque currency thus has the dual backing of—
    (1) The security against which the loan is granted;
    (2) Banking resources.

(*c*) How it is put into circulation: This question is partly answered under (*b*) above. Bank-notes are put into circulation—

(1) On the initiation:
(2) At the option—

of those having claims on banks, and to the extent that money in that form is effectively required for circulation in the community.

The expression "effectively required" is used because a person who had no goods or services exchangeable for money would not be able to effect any increase in the note-circulation on his own initiation or option.

Cheque currency comes into circulation at the option and to the extent required by those having claims on, and the right to draw cheques on, banks or other firms.

The modes in which bank-notes come into circulation are as under:—

(1) By the encashment of cheques or other negotiable instruments at a bank.
(2) As the result of those having gold bullion or coins, or token coins, exchanging them for bank-notes.
(3) By the payment of wages or salaries to bank employees.

The mode in which cheque currency comes into circulation is by customers of banks or other firms exercising their right to draw cheques, and by their exchanging such cheques for goods or services.

The mode in which coins may come into circulation are—

(*a*) By those having claims on banks exchanging other forms of currency for such coins:
(*b*) By the minting of coins.

(*d*) How it is cancelled out of existence:—

(1) Bank-notes: While in circulation bank-notes represent bank liabilities. When in the hands of the *issuing bank* the notes are neither bank assets nor bank liabilities. Bank-notes cease to be money in circulation when they are returned to the issuing bank, and are "cancelled out of existence" when they are no longer eligible or required for reissue. Cancelled notes are replaced by new notes to the extent effectively required by the community. Note issues are increased to the extent effectively required by the community, subject to statutory provisions.

(2) Cheque currency and other negotiable instruments are cancelled when they are presented for payment at the bank or firm on which they are drawn. The purchasing-power which they represent, however, is not thereby cancelled out of existence by banks; if they are paid into a credit account, they increase the balance of that account by an equivalent amount.

The expression "cancellation of money by banks" refers to the repayment of loans to banks. Such cancellation, while it may have the effect of decreasing the balances of some credit account or accounts (and so decrease the amount of immediately "spendable" money available) at the same time normally frees from liability to the same extent the property or other tangible form of wealth which had been the basis or security for the loan.

Unless such property or wealth has deteriorated in value, it can, if economic conditions warrant, be re-employed as the basis of fresh loans. The "cancellation of money out of existence" is normally at the option of the user or users of the money, and not on the initiation of banks.