



12th Economics

Chapter 4: Banking and Monetary Policy

GSEB

Amit Academy

Repo Rate & Reverse Repo Rate

Repo Rate

1. Rate at which RBI gives short-term loans to banks



2. Higher Repo Rate → Costly Loans



3. Helps RBI Control Inflation



Reverse Repo Rate

1. Rate at which RBI takes money from banks



2. Higher Reverse Repo Rate → More Bank Deposits



3. Reduces Extra Money in the Market



Functions of the Central Bank

Monetary Functions

1. Issues currency notes



2. Acts as banker to the government



3. Works as lender of last resort to banks



4. Controls credit and money supply



2. Non-Monetary Functions

1. Regulates and supervises banks and financial markets



2. Creates banking awareness among people



The Central Bank is a Banker to the Government

1. Banker, Agent & Advisor to Govt.



2. Manages Govt. Accounts & Payments.



3. Handles Govt. Bonds & Public Debt.

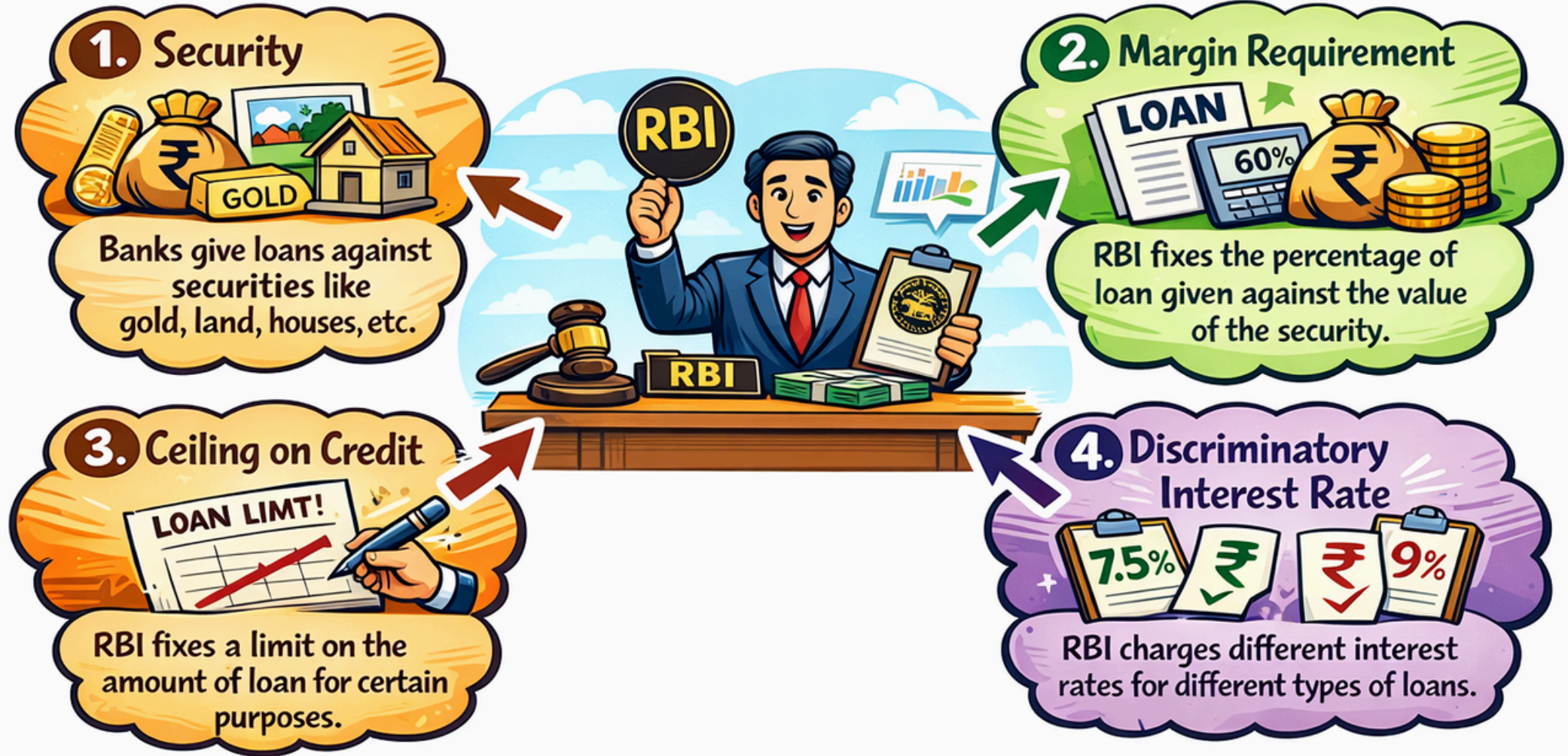


4. Provides Loans to Govt.



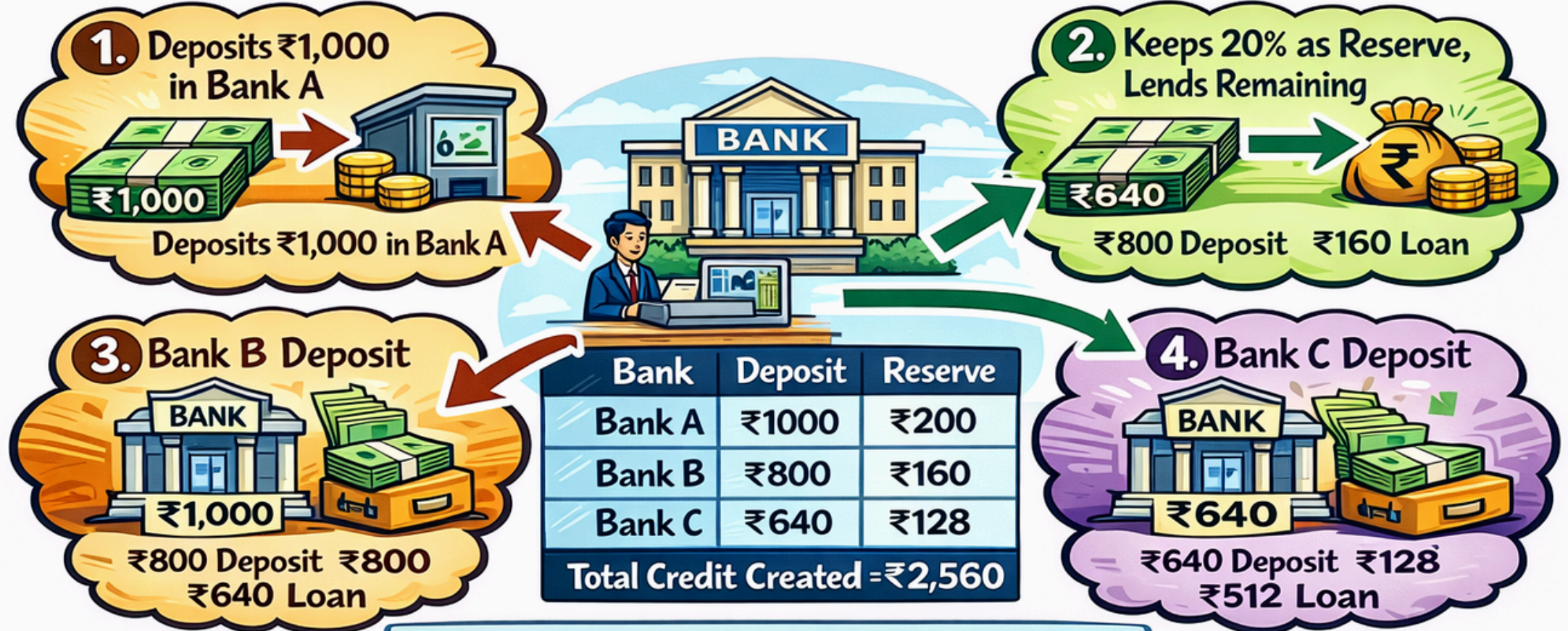
In India, the RBI performs these functions.

Qualitative Measures of Credit Control of RBI



These measures are used to control credit in specific sectors of the economy.

Function of Commercial Banks as Credit Creation



$$\text{Formula: Credit Creation} = \frac{\text{Primary Deposit}}{\text{Cash Reserve Ratio}} \times \frac{1}{\text{Credit Reserve Ratio}}$$

Banks lend most of the deposits they receive, creating much more credit than the original deposit.

Qualitative Tools of Monetary Policy of the RBI

1. Collateral Security

Loans Against Security



2. Margin Requirement

Loan % of Security Value



3. Ceiling on Credit

Loan Limit Set by RBI



4. Discriminatory Interest Rates

Different Loan Rates



Difference Between Commercial Bank and Central Bank



Commercial Bank

1 The main objective is to earn profit.

2 Does not issue currency.



3 Works under the control of the central bank.

4 Deals directly with the public.



Central Bank

1 The main objective is public welfare and economic development.

2 Issues currency (except ₹1 note).



3 It is the apex bank of the country.

4 Does not directly deal with the public.



TYPES OF DEPOSITS IN COMMERCIAL BANKS

1. Current Account Deposit



— For Business People

— Withdraw Anytime!



2. Savings Account Deposit

— For Saving Money

— Limited Withdrawals!



3. Recurring Deposit Account

— Fixed Amount Monthly



4. Fixed Deposit Account

— Lump Sum for
— Fixed Period & Higher Interest!



WHAT IS MEANT BY BANK RATE?

1. Rate at which RBI lends money to commercial banks for the long term



2. Given without Any Collateral Security

Given without Any Collateral Security



3. When Bank Rate Increases Borrowing Becomes Costly



4. Commercial Banks Borrow Less from the RBI



WHAT IS RECURRING DEPOSIT (RD)?

1. A Recurring Deposit is a Type of Savings Account

⇒ A Recurring Deposit is a Type of Savings Account



2. Deposit a Fixed Amount of Money Monthly

⇒ Earn Interest on the Total Amount Deposited



3. Earn Interest on the Total Amount Deposited



4. Helps Save Small Amounts Regularly



Example:

- ⇒ Deposit ₹1,000 Every Month for 2 Years
- ⇒ Receive ₹24,000 + Interest at the End



Functions of RBI

RBI as Banker's Bank

1. Keeps Part of Bank Reserves



2. Banks Deposit & Borrow Money



3. Supervises & Guides Banks



RBI as Lender of Last Resort

1. Provides Loans to Banks



2. Helps in Fund Shortage



3. Prevents Bank Failures



Cash Reserve Ratio (CRR) & Statutory Liquidity Ratio (SLR)

Cash Reserve Ratio (CRR)

1. Percentage of Deposits Kept as Cash with RBI



2. Cannot Be Lent



Statutory Liquidity Ratio (SLR)

1. Percentage of Deposits Kept as Cash, Gold, or Govt. Securities



2. Maintained by Banks Themselves





1 Scheduled Commercial Banks

1. Public Sector Banks

e.g.: State Bank of India,

1 Bank of Baroda.



2. Private Sector Banks

e.g.: HDFC Bank, ICICI Bank.



3. Foreign Banks

e.g.: Citibank, HSBC



Classifications of Scheduled Banks



2 Scheduled Co-operative Banks

2. Scheduled State Co-operative Banks



2. Scheduled Urban Co-operative Banks



1 Call Money

1. Call money is a short-term loan given by one bank to another bank.
2. It is usually for one day (24 hours) to meet a temporary shortage of funds.



What is Call Money & Call Money Rate?

2 Call Money Rate

2. Call money rate is the rate of interest charged on call money loans.
2. It changes according to the demand and supply of funds in the money market.



What is a

SAVINGS ACCOUNT?

1. Keeps Personal Savings

- For Safety & Future Use



2. Earns Interest

- Interest on Deposits







3. Withdraw Money Anytime

- When Needed



4. Ways to Withdraw

- Cheque 
- Withdrawal Slip 
- ATM  

Non-Monetary Functions of a Central Bank

1. Regulates Financial Markets



Regulates and supervises financial and money markets.

2. Brings People into Banking



Works to bring more people under the organised banking system.

3. Creates Banking Awareness



Creates banking awareness among the public.

4. Promotes Co-operative Banks

Promotes the establishment of co-operative banks



5. Ensures Stability & Development

Works for the overall development and stability of the banking system.



Savings and Recurring Account Deposits

Savings Account Deposits

1. It is an account where people keep their savings for a short period.



2. Banks pay interest on the deposited amount.



3. Money can be withdrawn when needed.



Recurring Account Deposits

1. It is a type of savings account.



2. People deposit a fixed small amount every month for a fixed period.



3. It helps in regular saving and earns interest.

