Economics Class 39

MONEY MULTIPLIER (09:07 AM)

- It refers to the amount of money that banks are able to create in the form of deposits.
- Through this concept, banks are able to create credit that is in far excess of the initial deposits.
- **Assumptions**
- 1) The entire commercial banking system is one unit and it is termed as the bank.
- 2) All the receipts and payments are routed through this system.
- **Initial deposits, loans given and Legal Reserve ratio**
- Money multiplier= 1/ legal reserve ratio
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Initial deposit	Loans given	LRR
1000	800	200
800	640	160
640	512	128
5000	4000	1000

- In the above example, the total deposits become 5 times the initial deposit.
- 5 times in the value of money multiplier.
- Deposit creation comes to an end when total reserves become equal to initial deposits.
- **Currency deposit ratio**
- CDR= Currency held by the Public/deposits of the public in banks
- If CDR=1, it means whenever an individual gets some amount of cash, say Rs 100, then he keeps Rs 50 as cash and Rs 50 as deposits in banks.

- **Slippage Ratio (SR)**
- It is the rate at which good loans are turning bad.
- The credit cost is the amount a bank expects to lose due to credit risk.
- It is the rate at which standard assets are turning out to become NPAs.
- **SR= (Newly accrued NPAs/ Total standard assets at the beginning of the year)* 100**
- E.g. Suppose the gross NPA of a bank in the last financial year is 12% and in the current financial year it has slipped to 15% due to fresh accumulation of bad loans. We call it a slippage of 3% in the current year.
- **Reserve Money (M0)**
- It is also called the monetary base. It denotes the money of RBI. M0 includes currency in circulation, bank deposits with RBI and other deposits with RBI.
- M0 is nothing but the total liabilities of RBI.

BANKING (09:45 AM)

- **Refer to the handout- Banking for details.**
- **History of Banking**
- Banking in India started in 1770 with the establishment of the Bank of Hindustan.
- Later, three Presidency Banks were set up:
- 1. Bank of Calcutta in 1806
- 2. Bank of Bombay in 1840
- 3. Bank of Madras in 1843
- These banks worked as quasi-central banks for many years.
- In 1921, all these three banks were amalgamated to form the Imperial Bank of India. Imperial Bank of India continued functioning till 1955, after which it was renamed as State Bank of India.

- **RESERVE BANK OF INDIA**
- The RBI was set up on the basis of the recommendations of the Hilton Young Commission.
- RBI was established in 1935 in accordance with the RBI Act, of 1934, and is India's central banking institution.
- It started its operations on 1 April 1935 during British rule as per the provisions of the RBI Act, 1934.
- **Functions of RBI:**
- 1. Issuer of Bank Notes
- 2. Banker to the Government
- 3. Banker's Bank
- **STRUCTURE OF BANKING SYSTEM IN INDIA**
- Commercial Banks
- SCBs in India are categorised into five different groups as follows:
- 1. State Bank of India
- 2. Nationalised Banks
- 3. Indian Private Banks
- 4. Private Sector Foreign Banks
- 5. Regional Rural Banks
- **CO-OPERATIVE BANKS:**
- Co-operative Banks in India are incorporated and registered under the States Co-operative Societies Act (passed by States).
- **NON-BANKING FINANCIAL COMPANIES:**
- Non-Banking Financial Company (NBFC) is a company that is engaged in the business of loans and advances, acquisition and selling of shares, bonds, debentures, or leasing, insurance, chit fund, etc. It is a very broad concept and has many variations.

Scheduled Commercial Bank

- **SHADOW BANKING**
- It comprises a set of markets and institutions that operate partially (or fully) outside traditional commercial banking and are either lightly regulated or unregulated. Simply, it is not illegal. it is just not strictly monitored as Commercial Banks are monitored by the RBI. Examples include Housing Finance Companies (HFCs), Retail-NBFCs and Liquid Debt Mutual Funds (LDMFs).
- **DIFFERENTIATED BANKING**
- The concept of differentiated banking was introduced by RBI, based on the recommendations of the Nachiket Mor Committee in 2013.
- Differentiated Banks are banks that cater to or serve a specific segment of customers unlike other normal universal banks (who offer all financial products).
- Refer to the handout for details.

UNEMPLOYMENT (11:02 AM)

- It is not only an economic problem but also a social problem as it can lead to the breakdown of social institutions like marriage and family and also causes social unrest.
- Unemployment according to economists measures involuntary idleness i.e. the time when individuals are available for and willing to work but are not able to find work.
- Employment is important for generating growth removing poverty and eventually ensuring prosperity.
- **Labour force**
- People above 15 years and less than 64 who are either employed or actively looking for employment.
- The workforce is a part of the labour force. The fraction of the labour force that is seeking work but can not find it, determines the unemployment ratio.
- **Note-** Students, prisoners or similar institutions are not counted in the labour force but are part of the working-age population.

for example:- introduction of AI but one does not have skill related to this

- **Types of unemployment**
- **1) Disguised unemployment-** Marginal productivity of labour is zero.
- **2) Cyclical unemployment (demand deficient unemployment)-** This is due to a fall in demand or a business cycle downturn.
- **3) Seasonal unemployment-** Rain-fed Indian Agriculture has employment from June to October. Seasonal employment is widely visible in the agricultural sector that is there is work during the season.
- **4) Frictional -** This unemployment involves people moving temporarily between jobs, searching for new employment opportunities therefore it is also called search employment. It is generally voluntary in nature as workers quit because of individual characteristics of the job.
- **5) Structural-** Unemployment is caused by a mismatch between a worker's skills and the skills required for the job. It essentially occurs because labour resources are confined to a given technology. Employers seek workers with appropriate skills
- **6) Underemployment-** It is defined as underutilization of skills i.e. employment of workers of high skill in low-wage work that does not require such ability.
- **7) Open-** According to NSSO if a person does not find work for a long-term period generally 6 months, it is termed as chronically unemployed or open unemployment.
- **8) Natural unemployment-** It exists when the economy is at full employment i.e. those who want work get work at prevailing market wages.
- Frictional and Structural unemployment is considered natural byproducts of a healthy expanding economy. while they can be reduced through proper training and education but total elimination is probably undesirable and likely impossible.

TOPIC OF THE NEXT CLASS- UNEMPLOYMENT (TO CONTINUE)