UNIT 6

Banking

INTRODUCTION

BANK

A bank is generally understood as an institution which provides fundamental financial services such as accepting deposits and lending loans.

QUANTITATIVE CREDIT CONTROL

To control the flow of quantum of credit, RBI adopts the measures which are given below:

Primary/Basic functions:-

- **Bank Rate –** It is the rate at which, RBI charges interest from the schedule banks on the loans (without security) given to them. It is also known as Re discount Rate.
- **Differential Rates of Interest** - If any bank borrows before fixed quota, then it has to pay higher interest rate than prevailing bank rate.
- **Open Market Operations –** It controls the flow of credit through sale and purchase of government securities in open market.
- **Cash Reserve Ratio –** It is the amount of funds that the banks have to keep with the RBI.
- **Statutory Liquidity Ratio –** It is the ratio of liquid asset, which all Commercial Banks keep in the form of cash, gold and unencumbered approved securities not more than 40 % of their demand and time deposits liabilities

QUALITATIVE CREDIT CONTROL

- **Change in Margin Requirement on Loans –** It can direct the bank to change the margin requirement on loan from time to time.
- **Margin Requirement on Loans –** It is the percentage value of security that can be used as collateral (additional) security at the time of loan.
- **Maximum Limit of Loans** - RBI fix the maximum limit of loan by the Commercial Banks.
- **Rationing of Credit –** RBI fix credit quota for member banks as well as their limits for the payment of bills.
- **Moral Suasion** - RBI holds meeting with member banks and seek their cooperation in controlling the monetary system of country.

IMPORTANT RATES DETERMINED BY RBI

BANK RATE :

It is the rate at which, RBI charges interest from the schedule banks on the loans (without security) given to them. It is also known as Rediscount Rate.\

EFFECT:

When Bank Rate will increase then commercial bank's interest rate will also increase which will result in decrease in demand and thus decrease in prices. (Decrease in inflation) and vice-versa

REP RATE :

It is the rate at which RBI lends money for short term against securities. It was introduced in December, 1992

EFFECT :

If there will be increase in Repo rate than it will decrease the amount of funds with the banks or loans will be available at higher rate which will reduce the demand and thus decrease in the prices (Decrease in inflation) and vice-versa.

REVERSE REPO RATE :

It is the rate at which RBI borrows money from Commercial Banks.

CASH RESERVE RATIO:

It is the amount of funds that the banks have to keep with the RBI.

EFFECT :

If CRR will be increase by the RBI than Banks have to keep more funds with RBI i.e. Banks will have less money to lend, which will result in decrease in demand and thus decrease in prices. (Decrease in inflation) and vice-versa

STATUTORY LIQUIDITY RATIO :

It is the ratio of liquid asset, which all Commercial Banks keep in the form of cash, gold and unencumbered approved securities not more than 40 % of their demand and time deposits liabilities.

EFFECT :

If there will be increase the SLR, the bank will have to keep more money, this will result in decrease in the lending of money and thus decrease the demand of the people which will lead to decrease in the prices and thus decrease the inflation and vice-versa.

IMPORTANT BANKS OF INDIA

❖ The Agricultural Refinance Development Corporation (ARDC)

- ❖ Regional Rural Banks (RRBs)
- ❖ NABARD
- ❖ Industrial Finance Corporation of India (IFCI)
- ❖ Industrial Credit and Investment Corporation of India (ICICI)
- ❖ Industrial Development Bank of India (IDBI)
- ❖ State Financial Corporations (SFCs)
- ❖ State Industrial Development Corporation (SIDCs)

MONETARY POLICY

Monetary policy is control over the money supply Central bank (CB) determines monetary policy When the CB wants to increase the money supply, it buys government bonds → bonds enters the CB → money leaves the CB ⇒ quantity of money held by the public expands When the CB wants to decrease the money supply, it sells government bonds → bonds leave the CB → money enteres the CB ⇒ quantity of money held by the public falls

THE SPECIFIC OBJECTIVES OF MONETARY POLICY

1. Neutrality of Money	2. Stability of Exchange Rates
3.Price Stability	4.Full Employment
5.Economic Growth	6. Equilibrium in the Balance of Payments

RECENT ADVANCEMENTS IN BANKING SECTOR

❖ E- Banking	❖ Paytm
❖ RTGS and NEFT	❖ Debit card and Credit Card
❖ ATM (Automated Teller Machine)	❖ Merger of Banks

DEMONITISATION

Demonitisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation, often to bereplaced with new coins or notes. s.

DEMONITISATION IN INDIA

On 8 November 2016, the Indian Prime Minister announced the demonetization of all Rs.500 and Rs.1000 bank notes of the Mahatma Gandhi Series. However, more than 99% of those currencies came back to the RBI.

BOOK EXERCISE QUESTIONS - MULTIPLE CHOICE QUESTIONS

PART - A

1. A Bank is a
a) Financial institution
b) Corporate
c) An Industry
d) Service institutions

2. A Commercial Bank is an institutions that provides services
a) Accepting deposits
b) Providing loans
c) Both a and b
d) None of the above

3. The Functions of commercial banks are broadly classified into
a) Primary Functions
b) Secondary functions
c) Other functions
d) a, b, and c

4. Bank credit refers to
a) Bank Loans
b) Advances
c) Bank loans and advances
d) Borrowings

5. Credit creation means.
a) Multiplication of loans and advances
b) Revenue
c) Expenditure
d)Debt

6. NBFI does not have.
a) Banking license
b) government approval
c) Money market approval
d) Finance ministry approval

7. Central bank is --------------- authority of any country.
a) Monetary
b) Fiscal
c) Wage
d) National Income

8. Who will act as the banker to the Government of India?
a) SBI b) NABARD
c) ICICI d) RBI

9. Lender of the last resort is one of the functions of.
a) Central Bank
b) Commercial banks
c) Land Development Banks
d) Co-operative banks

10. Bank Rate means.
a) Re-discounting the first class securities
b) Interest rate
c) Exchange rate
d) Growth rate

11. Repo Rate means.
a) Rate at which the Commercial Banks are willing to lend to RBI
b) Rate at which the RBI is willing to lend to commercial banks
c) Exchange rate of the foreign bank
d) Growth rate of the economy

12. 12. Moral suasion refers.
a) Optimization b) Maximization
c) Persuasion d) Minimization

13. ARDC started functioning from

a) June 3, 1963 b) July 3, 1963

c) June 1, 1963 d) July 1, 1963

14. NABARD was set up in.

a) July 1962 b) July 1972

c) July 1982 d) July 1992

15. EXIM bank was established in.

a) June 1982 b) April 1982

c) May 1982 d) March 1982

16. The State Financial Corporation Act was passed by

a) Government of India

b) Government of Tamilnadu

c) Government of Union Territories

d) Local Government.

17. Monetary policy his formulated by.

a) Co-operative banks

b) Commercial banks

c) Central Bank

d) Foreign banks

18. Online Banking is also known as.

a) E-Banking b) Internet Banking

c) RTGS d) NEFT

19. Expansions of ATM.

a) Automated Teller Machine

b) Adjustment Teller Machine

c) Automatic Teller mechanism

d) Any Time Money

20. 2016 Demonetization of currency includes denominations of

a) Rs.500 and Rs.1000

b) Rs.1000 and Rs.2000

c) Rs.200 and Rs.500

d) All the above

Answers

1	2	3	4	5	6	7	8	9	10
a	c	d	c	a	a	a	d	a	a
11	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
b	c	d	c	d	a	c	b	a	a

PART - B

Answer the following questions in one or two sentences

21. Define Commercial banks.

Commercial bank refers to a bank, or a division of a large bank, which more specifically deals with deposit and loan services provided to corporations or large/ middle-sized business - as opposed to individual members of the public/small business.

22. What is credit creation?

❖ Credit Creation means the multiplication of loans and advances.

❖ Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

23. Define Central bank.

❖ A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates.

❖ Central banks also usually oversee the commercial banking system of their respective countries.

24. Distinguish between CRR and SLR.

BASIS FOR COMPARISON	CRR	SLR
Meaning	CRR is the percentage of money which the bank has to keep with the Central Bank of India in the form of cash.	The bank has to keep a certain percentage of their Net Time and Demand Liabilities in the form of liquid assets as specified by RBI.
Form	Cash	Cash and other assets like gold and government securities viz. Central and State government securities.
Effect	It controls excess money flow in the economy.	It helps in meeting out the unexpected demand of any depositor by selling the bonds.
Maintenance with	Central Bank of Indi. Ex.: RBI.	Bank itself
Regulates	Liquidity in the economy.	Credit growth in the economy.

25. Write the meaning of Open market operations.

In narrow sense, the Central Bank starts the purchase and sale of Government securities in the money market.

In Broad Sense, the Central Bank purchases and sells not only Government securities but also other proper eligible securities like bills and securities of private concerns.

26. What is rationing of credit?

❖ This is the oldest method of credit control.

❖ It aims to control and regulate the purposes for which credit is granted by commercial banks. It is generally of two types.

a) The variable portfolio ceiling:

b) The variable capital asset ratio

27. Mention the functions of agriculture credit department.

a) To maintain an expert staff to study all questions on agricultural credit;

b) To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.

c) To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to co-ordinate their activities.

PART - C

Answer the following questions in one Paragraph.

28. Write the mechanism of credit creation by commercial banks.

i. Credit Creation means the multiplication of loans and advances.

ii. Banks have the power to expand or contract demand deposits and they exercise this power through granting more or less loans and advances and acquiring other assets.

iii. This power of commercial bank to create deposits through expanding their loans and advances is known as credit creation.

iv. The modern banks create deposits in two ways. They are **primary deposit** and **derived deposit**.

v. When a customer gives cash to the bank and the bank creates a

vi. book debt in his name called a deposit, it is known as a "primary deposit'.

vii. But when such a deposit is created, without there being any prior payment of equivalent cash to the bank, it is called a 'derived deposit'.

29. Give a brief note on NBFI.

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by the central bank.

Example: GIC Re, UTI Mutual Funds

❖ The NBFIs do not carry on pure banking business, but they will carry on other financial transactions.

❖ they are institutions which undertake borrowing and lending. They operate in both the money and the capital markets.

❖ NBFIs can be broadly classified into two categories. Viz.., (1) Stock Exchange; and (2) Other Financial institutions.

30. Bring out the methods of credit control.

Methods of Credit Control

General (Quantitative)	Selective (Quantitative)
1. Bank Rate	1. Rationing of Credit
2. Open Market Operations	2. Direct Action
3. Variable Cash Reserve Ratio	3. Moral suasion
	4. Publicity
	5. Regulation of Consumer's Credit
	6. Marginal Requirements

31. What are the functions of NABARD?

(i) NABARD acts as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts

(ii) It provides short-term, medium-term and long-term credits to state co-operative Banks (SCBs), RRBs, LDBs

(iii) NABARD gives long-term loans (upto 20 Years) to State Government to enable them to subscribe to the share capital of co-operative credit societies.

(iv) NABARD gives long-term loans to any institution approved by the Central Government or any institution concerned with agriculture and rural development.

(v) NABARD has the responsibility of co-ordinating the activities of Central and State Governments, NITI Aayog

(vi) It has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies.

(vii) It maintains a Research and Development Fund to promote research in agriculture and rural development.

32. Specify the functions of IFCI.

i) Long-term loans; both in rupees and foreign currencies.

ii) Underwriting of equity, preference and debenture issues.

iii) Subscribing to equity, preference and debenture issues.

iv) Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India; and

v) Guaranteeing of loans raised in foreign currency from foreign financial institutions.

33. Distinguish between money market and capital market.

BASIS FOR COMPARISON	MONEY MARKET	CAPITAL MARKET
Meaning	The mechanism through which short term funds are loaned and borrowed.	System which is concerned with raising capital by dealing in shares, bonds and other long term investments.
Nature of Market	Informal	Formal
Financial instruments	Treasury Bills, Commercial Papers, Certificate of Deposit, Trade Credit etc.	Shares, Debentures, Bonds, Retained Earnings, Asset Securitization, Euro Issues etc.
Institutions	Central bank, Commercial bank, non-financial institutions, bill brokers, acceptance houses, and so on.	Commercial banks, Stock exchange, non-banking institutions like insurance companies etc.
Liquidity	High	Low
Purpose	To fulfill short term credit needs of the business.	To fulfill long term credit needs of the business.
Time Limit	Within a year	More than a year
Merit	Increases liquidity of funds in the economy.	Mobilization of Savings in the economy.
Return on Investment	Less	Comparatively High

34. Mention the objectives of demonetizations.

Meaning of Demonitisation

Demonitisation is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency.

Objectives of Demonetisation

1. Removing Black Money from the country.
2. Stopping of Corruption.
3. Stopping Terror Funds.
4. Curbing Fake Notes

PART - D

Answer the following questions in about a page.

35. Explain the role of Commercial Banks in economic development.

1. Capital Formation

Banks play an important role in capital formation, which is essential for the economic development of a country. They mobilize the small savings of the people scattered over a wide area through their network of branches all over the country and make it available for productive purposes.

2. Creation of Credit

Banks create credit for the purpose of providing more funds for development projects. Credit creation leads to increased production, employment, sales and prices and thereby they bring about faster economic development.

3. Channelizing the Funds towards Productive Investment

Banks invest the savings mobilized by them for productive purposes. Capital formation is not the only function of commercial banks. Pooled savings should be allocated to various sectors of the economy with a view to increase the productivity. Then only it can be said to have performed an important role in the economic development.

4. Encouraging Right Type of Industries

Many banks help in the development of the right type of industries by extending loan to right type of persons. In this way, they help not only for industrialization of the country but also for the economic development of the country.

5. Banks Monetize Debt

Commercial banks transform the loan to be repaid after a certain period into cash, which can be immediately used for business activities. Manufacturers and wholesale traders cannot increase their sales without selling goods on credit basis. But credit sales may lead to locking up of capital.

6. Finance to Government

Government is acting as the promoter of industries in underdeveloped countries for which finance is needed for it. Banks provide long-term credit to Government by investing their funds in Government securities and short-term finance by purchasing Treasury Bills.

7. Employment Generation

After the nationalization of big banks, banking industry has grown to a great extent. Bank's branches are opened frequently, which leads to the creation of new employment opportunities.

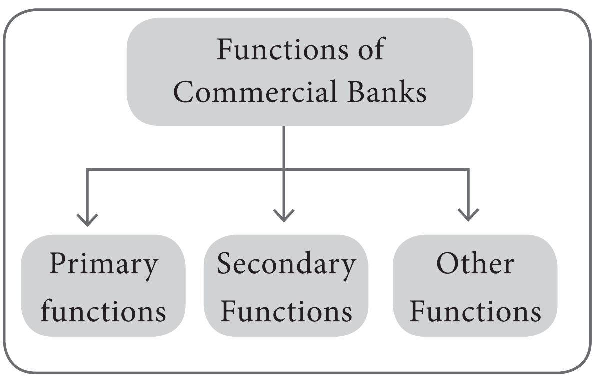
8. Banks Promote Entrepreneurship

In recent days, banks have assumed the role of developing entrepreneurship particularly in developing countries like India by inducing new entrepreneurs to take up the well-formulated projects and provision of counseling services like technical and managerial guidance.

36. Elucidate the functions of Commercial Banks.

Functions of Commercial Banks

Commercial banks are institutions that conduct business with profit motive by accepting public deposits and lending loans for various investment purposes.



Functions of Commercial Banks

(A) PRIMARY FUNCTIONS:

1. Accepting Deposits

It implies that commercial banks are mainly dependent on public deposits. There are two types of deposits, which are discussed as follows

(i) Demand Deposits

It refers to deposits that can be withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

(ii) Time Deposits

It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. Advancing Loans

It refers to granting loans to individuals and businesses. Commercial banks grant loans in the form of overdraft, cash credit, and discounting bills of exchange.

(B) SECONDARY FUNCTIONS

The secondary functions can be classified under three heads, namely, agency functions, general utility functions, and other functions.

1. Agency Functions

It implies that commercial banks act as agents of customers by performing various functions.

(i) **Collecting Cheques**Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) **Collecting Income** Commercial banks collect dividends, pension, salaries, rents, and interests oninvestments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) **Paying Expenses** Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

(2) General Utility Functions

It implies that commercial banks provide some utility services to customers by performing various functions.

(i) Providing Locker Facilities

Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

(ii) Issuing Traveler's Cheques

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange

Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the Central Bank for dealing in foreign exchange.

3. Transferring Funds

It refers to transferring of funds from one bank to another. Funds are transferred by means of draft, telephonic transfer, and electronic transfer.

4. Letter of Credit

Commercial banks issue letters of credit to their customers to certify their creditworthiness.

(i) Underwriting Securities

Commercial banks also undertake the task of underwriting securities. As public has full faith in the creditworthiness of banks, public do not hesitate in buying the securities underwritten by banks.

(ii) Electronic Banking

It includes services, such as debit cards, credit cards, and Internet banking.

(C) OTHER FUNCTIONS:

(i) Money Supply

It refers to one of the important functions of commercial banks that help in increasing money supply. For instance, a bank lends Rs.5 lakh to an individual and opens a demand deposit in the name of that individual. Bank makes a credit entry of Rs.5 lakh in that account. This leads to creation of demand deposits in that account. The point to be noted here is that there is no payment in cash. Thus, without printing additional money, the supply of money is increased.

(ii) Credit Creation

Credit Creation means the multiplication of loans and advances. Commercial banks receive deposits from the public and use these deposits to give loans. However, loans offered are many times more than the deposits received by banks. This function of banks is known as 'Credit Creation'.

(iii) Collection of Statistics:

Banks collect and publish statistics relating to trade, commerce and industry. Hence, they advice customers and the public authorities on financial matters.

37. Describe the functions of Reserve Bank of India.

Introduction RBI

The Reserve Bank of India (RBI) is India's central banking institution, which controls the monetary policy of the Indian rupee. It commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934. Following India's independence on 15 August 1947, the RBI was nationalised on 1 January 1949.

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system.

2. **The issuer of currency:** The objective is to maintain the currency and credit system of the country. It is the sole authority to issue currency. It also takes action to control the circulation of fake currency.

3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

4. **Banker to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government securities. It advises the government on banking and financial subjects.

5. **Banker's Bank:** RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.

6. **Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

7. **Act as clearing house:** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.

8. **Custodian of foreign exchange reserves:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.

9. **Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.

10. **Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.

11. **Regulator and Supervisor of Payment and Settlement Systems:** The Payment and Settlement Systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.

12. **Developmental Role:** This role includes the development of the quality banking system in India and ensuring that credit is available to the productive sectors of the economy.

13. **Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.

14. **Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most of the commercial banks are authorized dealers of RBI.

15. **Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks.

16. **Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the Banking Codes and Standards Board of India (BCSBI).

38. What are the objectives of Monetary Policy? Explain.

Meaning of Monetary Policy

Monetary Policy is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate.

The specific objectives of monetary policy are:

(i) Neutrality of money
(ii) Stability of exchange rates
(iii) Price stability
(iv) Full Employment
(v) Economic Growth
(vi) Equilibrium in the Balance of Payments.

1. Neutrality of Money

Economists like Wicksteed, Hayek and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Monetary changes could be the root cause of all economic fluctuations.

2. Exchange Rate Stability

Exchange rate stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payments of the country, it was automatically corrected by movements.

3. Price Stability

Economists like Crustave Cassel and Keynes suggested price stabilization as a main objective of monetary policy. Price stability is considered the most genuine objective of monetary policy. Stable prices repose public confidence.

4. Full Employment

During world depression, the problem of unemployment had increased rapidly. It was regarded as socially dangerous, economically wasteful and morally deplorable. Thus, full employment was considered as the main goal of monetary policy.

5. Economic Growth

Economic growth is the process whereby the real per capita income of a country increases over a long period of time. It implies an increase in the total physical or real output, production of goods for the satisfaction of human wants.

6. Equilibrium in the Balance of Payments

Equilibrium in the balance of payments is another objective of monetary policy which emerged significant in the post war years. This is simply due to the problem of international liquidity on account of the growth of world trade at a more faster speed than the world liquidity.

Additional One marks

1. ………………….is generally understood as an institution which provides fundamental financial services such as accepting deposits and lending loans.

a. A Central Bank

b. A bank

c. An agency finance

d. Finance company

2. Which had sprung from a private bank established in 1656 is the oldest central bank in the world?

a. The Ricks Banks of Sweden

b. The Ricks Banks of Spain

c. The Royal Banks of Switzerland

d. The Ricks Board of Sweden

3. The fundamentals of the art of banking have been developed by ………….as the first bank of issues.

a. The Bank of Baroda

b. The Bank of India

c. Federal Bank of America

d. The Bank of England

4. The first International Finance Conference held at Brussels in …………?

a. 1922 b. 1920 c. 1921 d. 1932

5. Match the items in the List – I with items in List – II. Select the correct answer from the code given below :

	List – I			List – II
I.	The Central Bank of China	-	1.	1935
II.	The Reserve Bank of New Zealand	-		1934
III.	The Reserve Bank of India	-	3.	1928
IV.	Central Bank of Ceylon	-	4.	1950

Codes :

	I	II	III	IV
a.	3	2	1	4
b.	2	4	1	3
c.	2	3	4	1
d.	1	2	3	4

6. What is the name of first bank of India?

a. Indian Bank

b. SBI

c. Bank of Hindustan

d. Imperial Bank

7. Before independence, there were …………. Presidency Banks.

a. two b. three c. one d. five

8. Identify the odd one.

a. Bank of Imperial (1921)

b. Bank of Bengal (1809)

c. Bank of Bombay (1840)

d. Bank of Madras (1843)

9. Demand Deposits refers to deposits that can be withdrawn by individuals ………… to the bank.

a. without any prior notice

b. with prior notice

c. both a and b are correct

d. none of the above

10. In which of the following, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card?

a. Saving Deposits

b. Demand Deposits

c. Time deposits

d. None of the above

11. 11. What deposits can be withdrawn only after a specific time period by providing a written notice to the bank?

a. Saving Deposits

b. Demand Deposits

c. Statutory Deposits

d. Time Deposits

12. Find the suitable match :Commercial banks act as agents of customers by performing various functions.

a. Primary Function

b. Secondary Function

c. Other Function

d. None of the above

13. ……………………… implies that commercial banks provide some utility services to customers by performing various functions.

a. Moral Suasion

b. General Utility Functions

c. Open market operation

d. Credit rationing

14. Pick the financial tool which are the safe and easy way to protect money while traveling

a. Demand Draft b. ATM

c. Master Card d. Traveller'sCheque

15. Which of the following is not a scheme of Electronic Banking?

a. debit cards

b. demand draft

c. credit cards

d. Internet banking.

16. The modern banks create deposits in two way,they are ………. deposit and …….. deposit

a. primary, derived

b. secondary, derived

c. primary, divided

d. preventable, divided

17. Which of the following statement is wrong?

a. It is out of these primary deposits that the bank makes loans and advances to its customers.

b. The initiative is taken by the customers themselves. In this case, the role of the bank is passive.

c. So these deposits are also called "Passive deposits"

d. None of the above

18. ……………insists the banks to maintain a ratio between the total deposits they create and the cash in their possession

a. New Bank of India

b. Central Bank

c. Development Bank

d. Federal Bank

19. Find the incorrect answer.

a. A non-banking financial institution (NBFI) and non-bank financial company (NBFC) are same.

b. A non-banking financial institution (NBFI) and non-bank financial company (NBFC) are not same, both are financial intermediaries.

c. A non-banking financial institution (NBFI) and non-bank financial company (NBFC) are not financial intermediaries.

d. All the above are incorrect

20. The NBFIs do not carry on pure .... business, but they will carry on other financial transactions.

a. banking

b. financing

c. cooperating

d. none of the above

21. Which of the following is not a NBFI?

a. insurance firms

b. pawn shops

c. currency exchanges

d. gramin bank

22. RBI commenced its operations on ....?

a. 10 April 1925

b. 1 April 1835

c. 10 April 1930

d. 1 April 1935

23. Which of these terms are/is appropriate for RBI?

a. Banker's Bank

b. Banker's to the Government

c. Both

d. None

24. Following India's independence on 15 August 1947, the RBI was nationalised on...........?

a. 1 January 1949

b. 10 January 1949

c. 1 January 1959

d. 11 January 1949

25. Under which Act, every bank has to obtain a banking license from RBI to conduct banking business in India.

a. Sec 32 of Banking Regulation Act

b. Baking Act of Parliament

c. Sec 22 of Banking Regulation Act

d. None of the above

26. .... was introduced by Sher Shah Suri based on a ratio of 40 copper pieces (paisa) per rupee.

a.The first currency

b. The first rupee

c. The first money

d. The first transaction

27. Each .... has its amount written in 17languages (English and Hindi on the front and 15 other on the back) illustrating the diversity of the country.

a. rupee b. coins

c. demand drafts d. bank note

28. Who is "Lender of Last Resort"?

a. World Bank b. Government

c. RBI d. Private Bank

29. Expand FEMA.

a. Factory Exchange Management Act

b. Foreign Exchange Management Act

c. Foreign Economic Management Act

d. Foreign Exchange Maintenance Act

30. Expand PSS.

a. The Payment and Settlement Systems Act

b. The Payment and Service Systems Act

c. The Portfolio and Settlement Systems Act

d. The Payment and Settlement Sanctions Act

31. Find the odd one.

a. Rationing of Credit

b. Bank Rate

c. Open Market Operations

d. Variable Cash Reserve Ratio

32. Variable Cash Reserve Ratio as an objective of monetary policy was first suggested by................

a. J.R. Hicks

b. J.M. Keynes

c. J.S. Mill

d. J.A. Schumpeter

33. .... and ....are the frequently used tools with which the RBI can control the availability and the supply of money in the economy.

a. The Repo Rate and the Reverse Repo Rate

b. CRR, SLR

c. Moral Suasion, Credit Ceiling

d. The Reverse Repo Rate, The Repo Rate

34. Which is not a Function of Agriculture Credit Department:

a) To maintain an expert staff to study all questions on agricultural credit;

b) To provide expert advice to Central and State Government, State Co-operative Banks and other banking activities.

c) To finance the rural sector through eligible institutions engaged in the business of agricultural credit and to co-ordinate their activities.

d) it provides loan to banks, accept the deposit of banks, and re-discount the bills of banks.

35. Expand ARDC

a. The Agricultural Restructure Development Corporation

b. The Agricultural Refinance Departmental Corporation

c. The Agricultural Refinance Development Company

d. The Agricultural Refinance Development Corporation

36. Expand NABARD

a. National Bank for Agriculture and Regional Development

b. National Bank for Agriculture and Restructure Development

c. National Bank for Agriculture and Rural Development

d. National Bank for Agriculture and Rural Department

37. Find the missing tier of NABARD

NABARD

↓

State Cooperative Bank

↓

?

↓

Primary Cooperative Society

a. Central Commercial Bank

b. Central Cooperative Bank

c. National Co-operative Bank

d. Regional Rural Bank

38. Expand IFCI

a. Industrial Finance Corporation of India

b. Investment Finance Corporation of India

c. Industrialisation Finance Committee of

India

d. Industrial Formation Corporation of India

39. Expand SIDC

a. State Industrial Development Company

b. Small Industrial Development Corporation

c. State Investment Development Corporation

d. State Industrial Development Corporation

40. Expand ICICI

a. Investment Credit and Industrial Corporation of India

b. Industrial Credit and Investment Corporation of India

c. Industrial Credit and Investment Committee of India

d. Industrial Committee and Investment Corporation of India

41. Expand IDBI

a. Industrial Department Bank of India

b. Investment Development Bank of India

c. Industrial Development Bank of India

d. Industrial Development Body of India

42. .... is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate

a. Narrow Money Policy

b. Dear Money Policy

c. Fiscal Policy

d. Monetary Policy

43. Expansionary policy is .... when a monetary authority uses its tools to stimulate the economy

a. Fiscal Policy

b. cheap money policy

c. monetary policy

d. Tax policy

44. The Contractionary monetary policy is.................., which maintains short-term interest rates higher than usual or which slows the rate of growth in the money supply or even shrinks it

a. dear money policy

b. federal policy

c. fiscal policy

d. monetary policy

45. The specific objectives of monetary policy are

a. Neutrality of money

b. Tax control

c. Stability of exchange rates

d. Price stability

46. Online banking, also known as ....

a. internet banking

b. Web banking

c. Mobile banking

d. speed banking

47. ....have only an internet presence, which enables them to lower costs than traditional brick-and-mortar banks

a. indirect banks

b. development bank

c. cooperative bank

d. direct banks

48. Expand NEFT

a. National electronic Fund Transfer

b. National electric Fund Transfer

c. National electronic Finance Transfer

d. National electronic Fund Transmission

49. Expand RTGS

a. Read Time Gross Settlement

b. Real Time Gross Settlement

c. Real Time Cross Settlement

d. Recovery Time Gross Settlement

50. Expand ATM

a. Any Time Money

b. Automated Telling Machine

c. Automated Teller Machine

d. Automated Teller Machanism

51. In August 2015, ………….received a license from RBI to launch a payments bank.

a. Uber b. Paytm

c. RuPay d. IndPay

52. The Paytm Payments Bank is a separate entity in which founder Vijay Shekhar Sharma will hold………….?

a. 51% share b. 50% share

c. 41% share d. 25% share

53. A Debit cardis a card allowing the holder to transfer money ………… from their bank account when making a purchase.

a. automatically b. electronically

c. technically d. none of the above

54. A …………….. is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services.

a. Debit Card b. Swipe card

c. Punch Card d. credit card

55. During 2018 - 19, the GOI has infused ……………… into the banking system.

a. Rs.78,000crores

b. Rs.88,000crores

c. Rs.68,000crores

d. Rs.66,000crores

56. The RBI uses three policy tools to manipulate the money supply: _____, which affect reserves and the monetary base; changes in _____, which affect reserves and the monetary base by influencing the quantity of discount loans; and changes in _____, which affect the money multiplier.

a. market operations; the discount rate; margin requirements

b. open market operations; the discount rate; reserve requirements

c. the discount rate; open market operations; margin requirements

d. the discount rate; open market operations; reserve requirements

57. The RBI uses three policy tools to manipulate the money supply: open market operations, which affect the _____; changes in the discount rate, which affect the _____ by influencing the quantity of discount loans; and changes in reserve requirements, which affect the _____.

a. money multiplier; monetary base; monetary base

b. monetary base; money multiplier; monetary base

c. monetary base; monetary base; money multiplier

d. money multiplier; money multiplier; monetary base

58. Of the three policy tools that the RBI can use to change the money supply, the one that does not affect the monetary base is

a. open market operations

b. changes in the discount rate

c. changes in the federal funds rate

d. reserve requirements

59. India's first women ' s bank The BharatiyaMahila Bank was inaugurated in which city ?

a. Mumabi b. Delhi
c. Kolkata d. Chennai

60. Current deposit is also known as ....
a. Savings deposit
b. demand deposit
c. time deposit
d. recurring deposit

61. .... is a credit facility granted by commercial banks to current account holders
a. Cash credit
b. overdraft
c. discounting of bills of exchange
d. demand loans

62. The process of .... begins with banks lending money out of primary deposit.
a. credit creation
b. cash credit
c. debit creation
d. over draft

63. State which of the following statements are True and which are false. Write 'T' for True and 'F' for a False statement:
(a) Loans and advances are both granted by banks to customers for a long period of time.
(b) Banks keep our jewellery and important documents safe with them.
(c) Banks grant loans to students for their studies at reasonable interest rate.
(d) Discounting of bills is done by banks free of cost.
(e) Through overdraft, a customer can withdraw more money than the amount in his/her bank account

a. (a) F (b) F (c) T (d) T (e) F
b. (a) T (b) F (c) T (d) F (e) T
c. (a) F (b) T (c) T (d) F (e) T
d. (a)T (b) F (c) T (d) F (e) F

64. Which bank was introduced first ATM machine in India?
a. RBI b. HSBC
c. PNB d. ICICI bank

65. Which among the following is a qualitative tool of monetary policy?
a. Bank Rate
b. Credit Ceiling
c. Credit rationing
d. Cash Reserve Ratio

66. Which among the following defines Repo Rate?
a. The rate at which banks place their surplus funds with the RBI
b. The rate at which banks can borrow against their excess SLR securities to meet additional liquidity requirements
c. The rate at which the Reserve Bank is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase
d. The rate at which banks borrow funds from the Reserve Bank against eligible collaterals

67. Which of the following is not the work of RBI?
a. Bank of the banks
b. Credit controller
c. Custodian of foreign currency
d. Allocating funds directly to the farmers for agricultural development

68. Cash reserve ratio is maintained in the form of
a. Government securities

b. Balance with RBI

c. Balance with state bank of India

d. All of the above

69. Manipulation in CRR enables the RBI to ....

a. Influence the lending ability of the commercial banks

b. Check unemployment growth

c. Check poverty

d. Increase GDP

70. How does a commercial bank create money

a. By printing money

b. By lending a part of its deposits

c. By issuing ATM cards

d. Accepting deposits

71. Who is associated with the doctrine of "monetarism" and who received Nobel prize in 1976?

a. Milton Friedman

b. Joseph Schumpeter

c. John Stuart Mill

d. Keynes

72. Match the statement in column A with the word(s) / terms in column B:

	Column A		**Column B**
(a)	The banking facility that helps us to make	(i)	ATM payments out of our bank-account without actually carrying money with us.
(b)	The banking facility enabling us to deposit	(ii)	Phone Banking or withdraw cash 24 hours a day
(c)	The facility that helps us to perform banking	(iii)	Credit Card transactions over the Internet.
(d)	We can get information about the balance in	(iv)	Debit Card our bank account over the mobile phone using this facility
(e)	The facility that enables us to make payment for	(v)	Net Banking purchase of goods bytaking credit from the bank

a. (a)-(iii) (b)-(i) (c)-(v) (d)-(ii) (e)-(iv)
b. (a)-(iv) (b)-(ii) (c)-(v) (d)-(i) (e)-(iii)
c. (a)-(iv) (b)-(i) (c)-(v) (d)-(ii) (e)-(iii)
d. (a)-(v) (b)-(i) (c)-(iv) (d)-(iii) (e)-(ii)

73. Assertion (A) : Banks issue traveler's cheques to individuals for traveling outside the country.

Reason (R) : Traveler's cheques are the safe and easy way to protect money while traveling.

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

74. Assertion (A) : The power of commercial bank to create deposits through expanding their loans and advances is known as credit creation.

Reason (R) : Banks have the power to expand or contract demand deposits and they exercise this power through granting more or less loans and advances and acquiring other assets.

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

75. **Assertion (A) :**Now-a-days, banks offer very attractive schemes to induce the people to save their money with them and bring the savings mobilized to the organized money market.

Reason (R) : If the banks do not perform this function, savings either remains idle or used in creating other assets,(eg.gold) which are low in scale of plan priorities.

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

76. **Assertion (A) :**Many banks help in the development of the right type of industries by extending loan to right type of persons.

Reason (R) : In this way, they help not only for industrialization of the country but also for the economic development of the country.

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

77. **Assertion (A) :**Whenever banks have any shortage of funds they can borrow from the RBI, against securities.

Reason (R) : If the RBI increases the Repo Rate, it makes borrowing expensive for banks and vice versa.

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

78. **Assertion (A) :**If the RBI increases the reverse repo rate, it means that the RBI is willing to offer lucrative interest rate to banks to park their money with the RBI.

Reason (R) :This results in a decrease in the amount of money available for banks customers as banks prefer to park their money with the RBI as it involves higher safety

a. Both A and R are true and R is the correct explanation of A.

b. Both A and R are true but R is not the correct explanation of A.

c. A is true but R is false.

d. A is false but R is true.

79. **Which of the following is not included as "money" in M1?**

a. Currency in circulation

b. Checkable deposits

c. Traveler's checks

d. The use of a credit card

80. **An open market purchase by the Central bank**

a. increases bank reserves, loans, and deposits, and thus increases the money supply.

b. decreases bank reserves, loans, and deposits, and thus decreases the money supply.

c. increases bank reserves, loans, and

deposits, and thus decreases the money supply.

d. decreases bank reserves, loans, and deposits, and thus increases the money supply

81. Which of the following is not one of the Central bank's monetary policy tools?

a. Buying bonds on the open market

b. Selling bonds on the open market

c. Raising or lowering taxes

d. Raising or lowering the reserve requirement ratio

82. Suppose the Central bank wanted to engage in an expansionary monetary policy. Which of the following should it do?

a. Sell bonds on the open market.

b. Increase the reserve requirement ratio.

c. Increase the discount rate.

d. Buy bonds on the open market

83. When credit rationing occurs,

a. banks keep their interest rates below what the market would bear, and deny loans to some potential borrowers.

b. Banks lend to only those customers deemed to be creditworthy and less risky.

c. Smaller and less well-known firms may be more disadvantaged than bigger firms with well-established reputations.

d. All of the above.

84. Match the correct codes

1	The Ricks Banks of Sweden	i	1656
2	Bank of England	ii	1864
3	Finance Conference held at Brussels	iii	1920
4	The Central Bank of China	iv	1928

Codes

a. (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)

b. (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)

c. (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)

d. (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

85. Match the correct codes

1	Bank of Bengal	i	1843
2	Bank of Bombay	ii	1921
3	Bank of Madras	iii	1840
4	All Merged	iv	1809

Codes

a. (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)

b. (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)

c. (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)

d. (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

86. Match the correct codes

1	It implies that commercial banks are mainly dependent on public deposits.	i	Agency Functions
2	It refers to deposits that can be withdrawn by individuals without any prior notice to the bank.	ii	Accepting Deposits
3	It refers to deposits that are made for certain committed period of time.	iii	Demand Deposits
4	It implies that commercial banks act as agents of customers	iv	Time Deposits

Codes

a. (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)

b. (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)

c. (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)

d. (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

87. Match the correct codes

1	Commercial banks issue letters of credit to their customers to certify their creditworthiness	i	Issuing Traveler's Cheques
2	It includes services, such as debit cards, credit cards, and Internet banking	ii	General Utility Functions
3	Banks issue traveler's cheques to individuals for traveling outside the country	iii	Electronic Banking
4	It implies that commercial banks provide some utility services to customers by performing various functions	iv	Letter of Credit

Codes

a. (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
b. (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
c. (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
d. (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

88. Match the correct codes

1	The rate at which the RBI is willing to lend to commercial banks	i	RRR
2	The amount which a bank has to maintain in the form of cash, gold or approved securities	ii	CRR
3	The rate at which the RBI is willing to borrow from the commercial banks	iii	SLR
4	Under this system the Central Bank controls credit by changing the Cash Reserves Ratio	iv	RR

Codes

a. (1) – (i) (2) – (ii) (3) – (iv) (4) – (iii)
b. (1) – (ii) (2) – (iii) (3) – (iv) (4) – (i)
c. (1) – (iv) (2) – (iii) (3) – (i) (4) – (ii)
d. (1) – (i) (2) – (ii) (3) – (iii) (4) – (iv)

Answers

1	2	3	4	5	6	7	8	9	10
b	a	d	b	a	c	b	a	a	b
11	**12**	**13**	**14**	**15**	**16**	**17**	**18**	**19**	**20**
d	b	b	d	b	a	d	b	a	a
21	**22**	**23**	**24**	**25**	**26**	**27**	**28**	**29**	**30**
d	d	c	a	c	b	d	c	b	a
31	**32**	**33**	**34**	**35**	**36**	**37**	**38**	**39**	**40**
a	b	a	d	d	c	b	a	d	b
41	**42**	**43**	**44**	**45**	**46**	**47**	**48**	**49**	**50**
c	d	b	a	b	a	d	a	b	c
51	**52**	**53**	**54**	**55**	**56**	**57**	**58**	**59**	**60**
b	a	b	d	c	b	c	d	a	b
61	**62**	**63**	**64**	**65**	**66**	**67**	**68**	**69**	**70**
b	a	c	b	c	d	d	b	a	b
71	**72**	**73**	**74**	**75**	**76**	**77**	**78**	**79**	**80**
a	c	a	a	a	a	b	a	d	a
81	**82**	**83**	**84**	**85**	**86**	**87**	**88**		
c	d	d	d	c	b	c	c		

Additional Two Marks

1. Mention the names of Presidency Banks

- 1. Bank of Bengal (1809)
- 2. Bank of Bombay (1840)
- 3. Bank of Madras (1843)

2. What are Demand Deposits?

- It refers to deposits that can be withdrawn by individuals without any prior notice to the bank.
- In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

3. What are Time Deposits?

❖ It refers to deposits that are made for certain committed period of time.

❖ Banks pay higher interest on time deposits.

❖ These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

4. Write a note on "Providing Locker Facilities"of banks.

❖ Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items.

❖ This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

5. Write a short on - Traveler'sCheque

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

6. Write few examples of NBFI

❖ a. insurance firms

❖ b. pawn shops

❖ c. currency exchanges

7. Write a brief history of RBI

❖ RBI commenced its operations on 1 April 1935 in accordance with the Reserve Bank of India Act, 1934.

❖ The original share capital was divided into shares of Rs.100 each fully paid, which were initially owned entirely by private shareholders.

❖ Following India's independence on 15 August 1947, the RBI was nationalised on 1 January 1949.

8. Mention few major functions of RBI

❖ - Issues currency

❖ - Banker to the government

{It collects receipts of funds and makes payments on behalf of the government}

❖ - Regulator of Indian Banking system

❖ - Custodian of Forex

❖ - Controller of credit

9. Comment on RBI as "Lender of last resort"

The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.

10. What is "Banking Ombudsman Scheme"

❖ RBI introduced the Banking Ombudsman Scheme in 1995.

❖ Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the Ombudsman against the awards and the other decisions of the Banks.

11. Write a brief note on Bank Rate Policy

❖ The bank rate is the rate at which the Central Bank of a country is prepared to re-discount the first class securities.

❖ It means the bank is prepared to advance loans on approved securities to its member banks.

12. Write a brief note on Statutory Liquidity Ratio.

Statutory Liquidity Ratio (SLR) is the amount which a bank has to maintainin the form of cash, gold or approved securities.

13. List the frequent methods of credit control under selective method.

The following are the frequent methods of credit control under selective method:

1. Rationing of Credit
2. Direct Action
3. Moral Persuasion
4. Method of Publicity
5. Regulation of Consumer's Credit
6. Regulating the Marginal Requirements on Security Loans

14. What is Moral Suasion?

i. This method is frequently adopted by the Central Bank to exercise control over the Commercial Banks.

ii. Under this method Central Bank gives advice, then requests and persuades the Commercial Banks to co-operate with the Central Bank in implementing its credit policies.

15.How NABARD complemented RBI?

❖ With the establishment of National Bank for Agriculture and Rural Development (NABARD), all the functions of the RBIrelating to agricultural credit had been taken over and looked after by NABARD since 1982.

❖ Since then, all activities relating to rural credit are entirely looked after by NABARD.

16. List any two of concessions RBI to RRBs.

(a) They are allowed to maintain cash reserve ratio at 3 per cent and statutory liquidity ratio at 25 per cent; and

(b) They also provide refinance facilities through NABARD.

17. What are the All-India Level Institutions for industrial finance?

❖ - Industrial Finance Corporation of India (IFCI)

❖ - Industrial Credit and Investment Corporation of India (ICICI)

❖ - Industrial Development Bank of India (IDBI)

18. What are the State Level Institutions for industrial finance?

❖ - State Financial Corporations (SFCs)

❖ - State Industrial Development Corporation (SIDCs)

19. List the functions of ICICI as an industrial finance bank.

i. Assistance to industries

ii. Provision of foreign currency loans

iii. Merchant banking

iv. Letter of credit

v. Project promotion

vi. Housing loans

vii. Leasing operations

20. List the functions of IDBI as an industrial finance bank

The functions of IDBI fall into two groups,

(i) Assistance to other financial

institutions; and

(ii) Direct assistance to industrial concerns either on its own or in participation with other institutions.

21. Write a brief note on SFCs.

❖ The government of India passed in 1951 the State Financial Corporations Act and SFCs were set up in many states.

❖ SFCs are mainly intended for the development of small and medium industrial units within their respective states.

22. What is monetary policy?

Monetary Policy is the macroeconomic policy being laid down by the Central Bank towards the management of money supply and interest rate.

23. Expansionary policy – Define.

❖ Expansionary policy is cheap money policy when a monetary authority uses its tools to stimulate the economy.

❖ An expansionary policy maintains short-term interest rates at a lower than usual rate or increases the total supply of money in the economy more rapidly than usual.

24. Define contractionary monetary policy.

❖ The Contractionary monetary policy is dear money policy, which maintains short-term interest rates higher than usual or which slows the rate of growth in the money supply or even shrinks it.

❖ This slows short-term economic growth and lessens inflation.

25. Write a note on Paytm.

❖ Paytm Payments Bank. In August 2015, Paytm received a license from RBI to launch a payments bank.

❖ The Paytm Payments Bank is a separate entity in which founder Vijay Shekhar Sharma will hold 51% share, One97 Communications holds 39% and 10% will be held by a subsidiary of One97 and Sharma.

26. What is a credit card?

A credit card is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus the other agreed charges.

27. What is a debit card?

A Debit card is a card allowing the holder to transfer money electronically from their bank account when making a purchase.

28. Write a short meaning of Money market.

❖ Money market is the mechanism through which sthort term funds are loaned and borrowed.

❖ It designates financial instittutions which handle the purchase, sale and transfer of short term credit instruments.

29. What do you mean by Capital Market?

❖ Capital Market is a part of financial system which is concerned with raising capital by dealing in shares, bonds and other long term investments.

❖ The market where investment instruments like bonds, equities and mortgages are traded is known as the capital market

30. Write a brief note on Demonetisation of 2016.

Demonitisation is the act of stripping a currency unit of its status as legal tender.

- ❖ It occurs whenever there is a change of national currency.
- ❖ The current form or forms of money is pulled from circulation, often to bereplaced with new coins or notes.
- ❖ On 8 November 2016, the Indian Prime Minister Mr. NarendraModi announced the demonetization of all Rs.500 and Rs.1000 bank notes of the Mahatma Gandhi Series.

31. Define a financial intermediary.

- ❖ A financial intermediary is a bank or other institution that serves as a link between lenders and borrowers.
- ❖ They typically accept savings deposits from consumers and then lend money to consumers and businesses to finance purchases of goods and services or for investment purposes.

32. What is the meaning of money multiplier?

- ❖ The money multiplier represents the multiple by which deposits can increase for every dollar increase in reserves.
- ❖ Thus, the entire banking system has the capacity to expand the nation's money supply by the multiple of its initial reserve balance.

33. What are Development Banks?

- ❖ To achieve economic development for the country, investment in industries and infrastructure is required.
- ❖ To make such thing possible there are development banks in India.
- ❖ These banks provide credit for a long period to private business companies and public sector units who want to establish industries and create infrastructure.

34. Differential in short – NEFT and RTGS.

BASIS	NEFT	RTGS
Meaning	NEFT is a system of online money transfer where the payment is made in near real time basis.	RTGS is an electronic payment system where the funds are transferred at the same time when the transaction took place.
Introduced in	2005	2004
Ceiling limit	No such limit, but the maximum amount per transaction is restricted to Rs. 50,000	Minimum - 2 lakh, Maximum - No limit
Appropriate for	Small value transaction	High value transaction
Processing	Comparatively Slow	Fast

Additional Three Marks

1. Discuss the Primary Functions.

Accepting Deposits

It implies that commercial banks are mainly dependent on public deposits.

There are two types of deposits, which are discussed as follows

(i) Demand Deposits

It refers to deposits that can be

withdrawn by individuals without any prior notice to the bank. In other words, the owners of these deposits are allowed to withdraw money anytime by writing a withdrawal slip or a cheque at the bank counter or from ATM centres using debit card.

(ii) Time Deposits

It refers to deposits that are made for certain committed period of time. Banks pay higher interest on time deposits. These deposits can be withdrawn only after a specific time period by providing a written notice to the bank.

2. General Utility Functions of RBI – Discuss.

It implies that commercial banks provide some utility services to customers by performing various functions.

(i) Providing Locker Facilities

Commercial banks provide locker facilities to its customers for safe custody of jewellery, shares, debentures, and other valuable items. This minimizes the risk of loss due to theft at homes. Banks are not responsible for the items in the lockers.

(ii) Issuing Traveler's Cheques

Banks issue traveler's cheques to individuals for traveling outside the country. Traveler's cheques are the safe and easy way to protect money while traveling.

(iii) Dealing in Foreign Exchange

Commercial banks help in providing foreign exchange to businessmen dealing in exports and imports. However, commercial banks need to take the permission of the Central Bank for dealing in foreign exchange.

3. Write a brief note on "The First Rupee"

- The first rupee was introduced by Sher Shah Suri based on a ratio of 40 copper pieces (paisa) per rupee. The name was derived from the Sanskrit word Raupya, meaning silver.
- Each banknote has its amount written in 17languages (English and Hindi on the front and 15 other on the back) illustrating the diversity of the country.

4. Differentiate CRR and SLR.

BASIS	CRR	SLR
Meaning	CRR is the percentage of money which the bank has to keep with the Central Bank of India in the form of cash.	The bank has to keep a certain percentage of their Net Time and Demand Liabilities in the form of liquid assets as specified by RBI.
Form	Cash	Cash and other assets like gold and government securities viz. Central and State government securities.
Effect	It controls excess money flow in the economy.	It helps in meeting out the unexpected demand of any depositor by selling the bonds.

BASIS	CRR	SLR
Maintenance with	Central Bank of India i.e. RBI.	Bank itself.
Regulates	Liquidity in the economy.	Credit growth in the economy.

5. How does the IFCI provides assistance to the industrial?

i) Long-term loans; both in rupees and foreign currencies.

ii) Underwriting of equity, preference and debenture issues.

iii) Subscribing to equity, preference and debenture issues.

iv) Guaranteeing the deferred payments in respect of machinery imported from abroad or purchased in India; and

v) Guaranteeing of loans raised in foreign currency from foreign financial institutions.

6. Compare the dissimilarities of Repo Rate and Reverse Repo Rate.

BASIS	REPO RATE	REVERSE REPO RATE
Meaning	Repo rate is the rate at which the Central bank of India grants loan to the commercial banks for a short period against government securities.	Reverse repo rate is the rate at which the commercial banks grant loan to the Central Bank of India.
Purpose	To fulfill the deficiency of funds.	To ensure liquidity in the economy.
Rate	High	Comparatively less.
Controls	Inflation	Money supply in the economy.
Charged on	Repurchase Agreement	Reverse Repurchase Agreement

7. Discuss the Agency Functions of RBI.

Agency Functions implies that commercial banks act as agents of customers by performing various functions.

(i) Collecting Cheques Banks collect cheques and bills of exchange on the behalf of their customers through clearing house facilities provided by the central bank.

(ii) Collecting Income Commercial banks collect dividends, pension, salaries, rents, and interests on investments on behalf of their customers. A credit voucher is sent to customers for information when any income is collected by the bank.

(iii) Paying Expenses Commercial banks make the payments of various obligations of customers, such as telephone bills, insurance premium, school fees, and rents. Similar to credit voucher, a debit voucher is sent to customers for information when expenses are paid by the bank.

8. What are the key difference between Credit and Debit Card?

BASIS	CREDIT CARD	DEBIT CARD
Meaning	A credit card is a payment card issued to users (cardholders) to enable the cardholder to pay a merchant for goods and services based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus the other agreed charges.	A Debit card is a card allowing the holder to transfer money electronically from their bank account when making a purchase.
Implies	Pay later	Pay now
Bank Account	The bank account is not prerequisite for issuing a credit card.	The bank account is a must for issuing a debit card.
Bill	The holder of the card has to pay the credit card bill within 30 days of every month.	There is no such bill, the amount is directly deducted from the customer's account.
Interest	Interest is charged when payment is not made to the bank within a specified time period.	No interest is charged.

9. State the implications of ATM.

- ❖ ATMs transformed the bank tech system when they were first introduced in 1967.
- ❖ The next revolution in ATMs is likely to involve contactless payments.
- ❖ Much like Apple Pay or Google Wallet, soon we will be able to conduct contactless ATM transactions using a smartphone.
- ❖ Some ATM innovations are already available overseas.
- ❖ For example, biometric authentication is already used in India, and its recognition is in place at QatarNational Bank ATMs. These technologies can help overall bank security by protecting against ATM hacks.

Additional Five Mark

1. Compare and contrast RBI and other Commercial Banks.

BASIS	RBI	COMMERCIAL BANK
Meaning	The bank which looks after the monetary system of the country is known as Central Bank.	The establishment, which provides banking services to the public is known as Commercial Bank.
Role	It is a banker to the banks and the government of the country.	It is the banker to the citizens of the nation.
Established by	Reserve Bank of India Act, 1934.	Banking Regulation Act, 1949.

BASIS	RBI	COMMERCIAL BANK
Ownership	Public	Public or Private
Monetary Authority	It is the supreme monetary authority with wide powers.	No such authority.
Objective	Public welfare and economic development.	Earning Profits
Money supply	Ultimate source of money supply in the economy.	No such function is performed by it.
Right to print and issue currency notes	Yes	No
Deals with	Banks and Governments	General Public
How many banks are there?	Only one	Many

2. Discuss Cheap and Dear Money policy.

A. Monetary Policy: Expansionary Vs. Contractionary

Expansionary policy

i. Expansionary policy is cheap money policy when a monetary authority uses its tools to stimulate the economy.

ii. An expansionary policy maintains short-term interest rates at a lower than usual rate or increases the total supply of money in the economy more rapidly than usual.

iii. It is traditionally used to try to combat unemployment by lowering interest rates in the hope that less expensive credit will entice businesses into expanding.

iv. This increases aggregate demand (the overall demand for all goods and services in an economy), which boosts short-term growth as measured by gross domestic product (GDP) growth.

The Contractionary

i. The Contractionary monetary policy is dear money policy, which maintains short-term interest rates higher than usual or which slows the rate of growth in the money supply or even shrinks it.

ii. This slows short-term economic growth and lessens inflation.

iii. Contractionary monetary policy can lead to increased unemployment and depressed borrowing and spending by consumers and businesses, which can eventually result in an economic recession if implemented too vigorously.

B. The Two Faces of Monetary Policy

Cheap Money Policy for Inflation	Dear Money Policy for Recession
1. Borrowing is easy	1. Borrowing is difficult
2. Consumers buy more	2. Consumers buy less
3. Businesses expand	3. Businesses Postpone expansion
4. More people are employed	4. Unemployment increases

5. People spend more	5. Production is reduced

3. Distinguish between NBFC and Other Commercial Bank.

BASIS	NBFC	BANK
Meaning	An NBFC is a company that provides banking services to people without holding a bank license.	Bank is a government authorized financial intermediary that aims at providing banking services to the general public.
Demand Deposit	Not Accepted	Accepted
Payment and Settlement system	Not a part of system.	Part of the system.
Maintenance of Reserve Ratios	Not required	Compulsory
Deposit insurance facility	Not available	Available
Credit creation	NBFC do not create credit.	Banks create credit.
Transaction services	Not provided by NBFC.	Provided by banks.

4. Write the History, Administration and Brief Functions of RBI.

History:

- Formed on April 1, 1935 in accordance with the RBI Act, 1934
- Nationalized on January 1, 1949 (Fully owned by GOI)
- Headquarter moved from Calcutta to Mumbai in 1937
- Osborne Smith was the first Governor of RBI

Administration:

- It is the Central Bank/ Regulator for all bank in India
- Also called "Lender of Last Resort"
- Governors and 4 Deputy Governors along with a central board of directors appointed by the GOI.

Functions:

- Issues currency
- Banker to the government

{It collects receipts of funds and makes payments on behalf of the government}

- Regulator of Indian Banking system
- Custodian of Forex
- Controller of credit

5. Explain the chain of events that results from an expansionary monetary policy.

1. The money supply increases which places downward pressure on the interest rate.

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2. The lower interest rate stimulates planned investment and aggregate output.

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3. This in turn increases the amount of money demand.

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4. This in turn may cause interest rates to fall by less than they otherwise would had there been

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5. No feedback effect from the increased demand for money henceforth