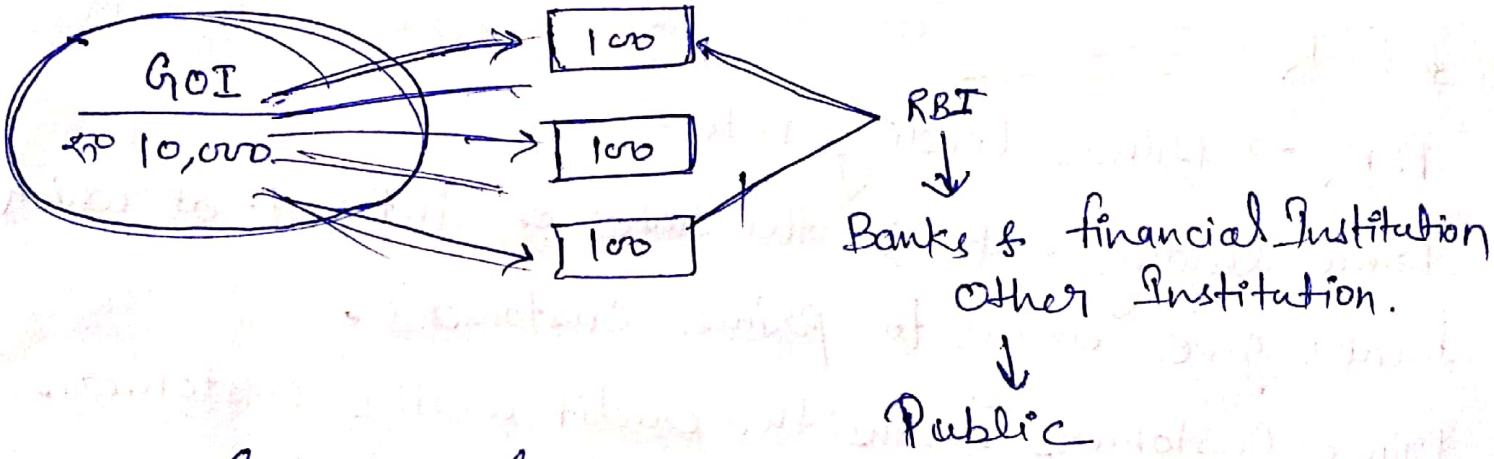
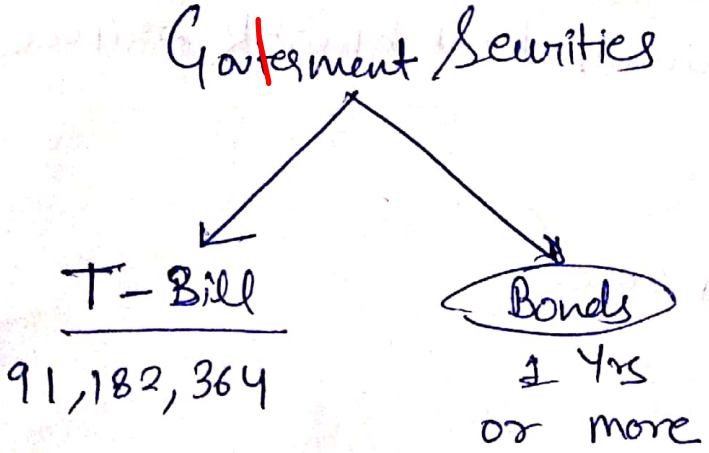
17/Aug/2020

Indian Economy – CLASS -13

Topics – BPLR, Base rate, MCLR, Type of Costs.

G-Sec → Debt Instruments





(2)

BPLR → introduced in 2003
Base Rate → introduced in 2010
MCLR → 1 April, 2016
External Benchmark → 1st oct 2019.

(MCLR → Magginal cost of fund based Lending Rate)

#BPLR - 2003

PLR → Prime Lending Rate
Prime lending rate is the rate of interest at which banks give loans to prime customers.
Prime customers means the credit worthy customer.
This PLR act as a minimum benchmark prime lending Rate.

#Base Rate - Introduced in 2010.

Average Cost

> Cost of deposits
> Adjustments of the negative carry in respect of CRR & SLR
> Operating Cost
> Profit Margin

RBI constituted an internal working group in 2009 on benchmark prime lending rate under the chairman ship of Shri Deepak Mohanty to review the present BPLR system and suggest changes to make Credit pricing more transparent. the working group submitted its repost on October 2019 and. on the basis of ~~recomendation~~ recommendation of the groups and all Stakeholder. RBI replaced BPLR system with the base rate system effective from 1st April 2010. The base rate become minm lending rate for banks and it is decided on the basis of the following factors. ~~and~~

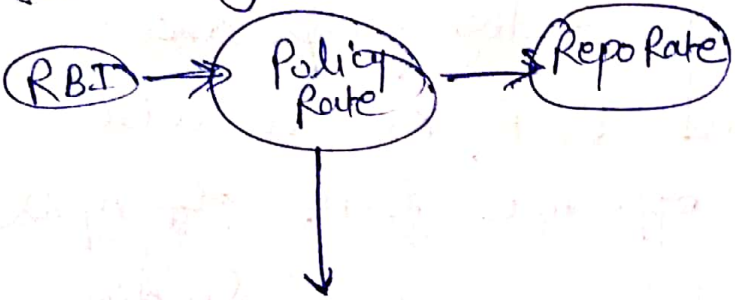
i) Cost of deposits
ii) Adjustments of the negative carry in respect of CRR & SLR
iii) Operating Cost
iv) Profit Margin

So base rate is based on Average Cost of fund. All banks Calculating base rate on the basis of average cost of fund and after calculation the banks getting approval from Highest decision making body ~~and~~ RBI

and after due process this rate of interest become minimum rate of interest.

MCLR — 1, April 2016

Monetary Policy Transmission



Basis Points —
300 Bps ⇒ 3%.
200 Bps ⇒ 2%.
100 Bps = 1%.
50 Bps = 0.5%.
25 Bps = 0.25%.

Theory of Cost

Production function $q = f(L, \bar{K})$

- q → total output
- L → Labour
- $\bar{K}$ → fixed Capital

Short-Run/Term
&
Long-Run/Term

Short-Run → It is a time period during which fixed factors can not be changed. like capital.

Long-Run ⇒ It is a time period during which all factor can be changed. There is no concept of fixed factor in long run.

These production function represent that o/p depends on labour and capital ~~and~~ at given technology. It represent the maxm output can be produced by use of L amount of labour and $\bar{K}$ amount of capital.

L (Labour) is the variable input.

$\bar{K}$ (Capital) is known as the fixed input.

The input that can be changed during short run is known as variable input or factor like labour.

The fixed input - The input which can not be changed during short run is known as fixed factor or fixed input.

$$q = f(L, \bar{K})$$

- q ⇓ Total output
- L ⇓ variable input
- $\bar{K}$ ⇓ fixed input

(Total Variable cost) TVC

TFC (Total fixed cost)

Total Variable Cost → It is the cost which is incured on variable inputs. TVC depends on level of output. If level of output is zero TVC will be zero. If level of production / output

increase, the total variable cost will also increase accordingly.

TFC

The cost incured on fixed input like capital is known as total fixed cost. It does not depend on level of output. If level of output is zero TFC will remain same. If level of production changes then also TFC will remain same.

$$TC = TVC + TFC$$

Total Cost — Total Variable Cost — Total fixed Cost

$$\frac{TC}{q} = \frac{TVC}{q} + \frac{TFC}{q}$$

$$AC = AVC + AFC$$

Average Cost — Average Variable Cost. — Average fixed Cost