

Topics - NDPL, Money, Monetary Policy instruments etc.

## # Inflation : Bad or Good?

### Law of Supply

$$\left\{ \begin{array}{l} P_2 \uparrow \Rightarrow \text{Supply of } x \uparrow \\ P_2 \downarrow \Rightarrow \text{Supply of } x \downarrow \end{array} \right\}$$

$$\text{Profit} = \frac{\text{Total Revenue} - \text{Total Cost}}{P \times q}$$

for single  
good

$$\pi = P - \bar{C}$$

$$\underbrace{P \uparrow}_{\text{Price}} = \pi \uparrow \Rightarrow \text{Production} \uparrow \Rightarrow \text{Supply} \uparrow$$

Real Income
Monetary Income

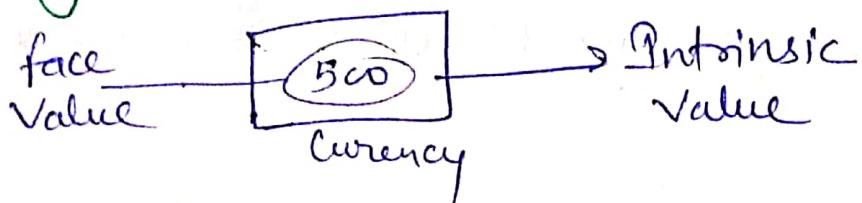
$$\downarrow RI = \frac{MI}{\uparrow \text{Price level}}$$

## # Monetary Policy Instruments

Money may be anything (metallic or non-metallic) which can act as medium of exchange and acceptable by all the individuals of the society or economy. Acceptability implies that it is issued by the competent authority like RBI in India.

②

## \* Token Money



face value > Intrinsic Value

## \* Full Bodied Money

When face value is equal to Intrinsic Value, It is also known as the commodity money.

## # Value of Money?

Value of money means purchasing power of money. Value of money depends on the inflation in the country. Higher the inflation, lower will be the value of money or lower purchasing power of money.

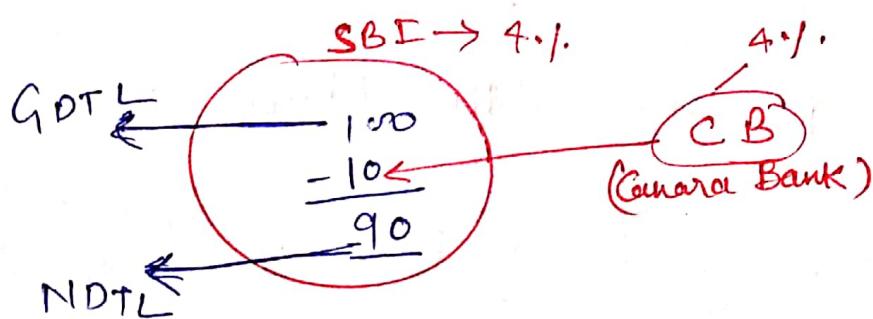
## \* Fiat Money

The money issued by the competent Authority. It is a legal money.

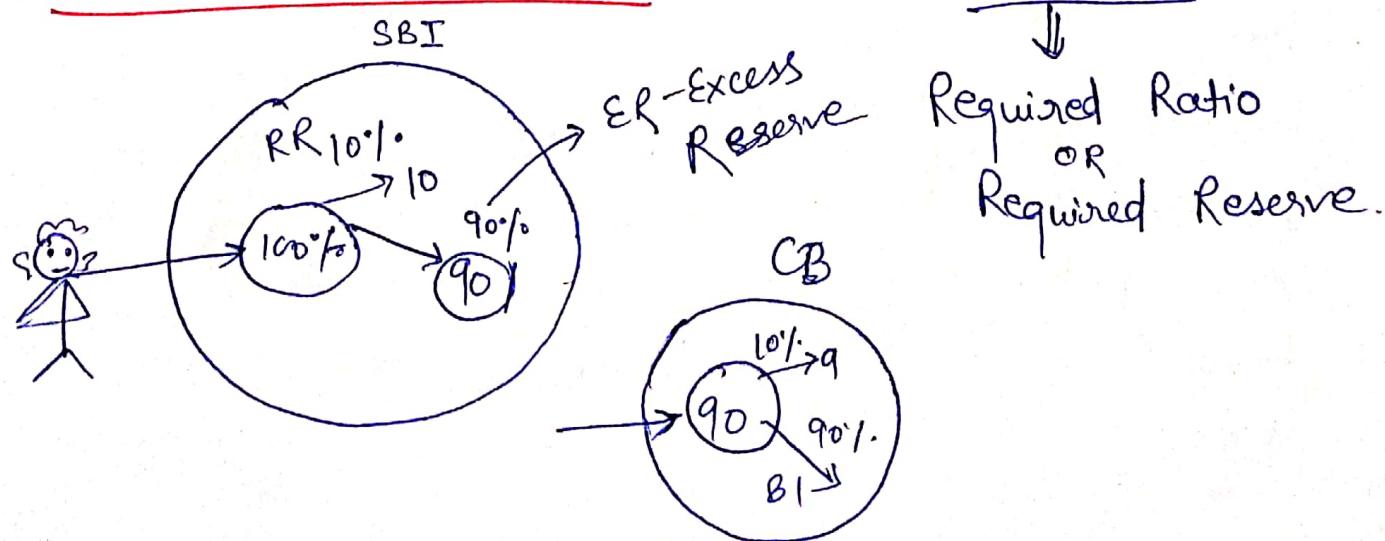
$$\underline{CRR \rightarrow 4\% \leftarrow \frac{NDTL}{\downarrow}}$$

Net Demand and Time Liabilities

- > fixed deposits (OR)
  - Term deposits (OR)
  - Time Deposits
- > Demand Deposit
- Demand and Time deposits
- Demand and Time Liabilities



## # Credit Creation



$$RR = 10\% \rightarrow 100 + 90 + 81 - - - - -$$

$$RR = 20\% \rightarrow 100 + 80 + 64 - - - - -$$

④

$$M_1 = CU + \text{DD} + OD$$

$M_1$  → stock of Money  
(OR)  
Money Supply  
(OR)  
Narrow Money

CU - Currency  
in circulation  
with the public

DD - demand  
deposits

## # CRR

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### 1 Reserve Ratio / Statutory Reserve Ratio

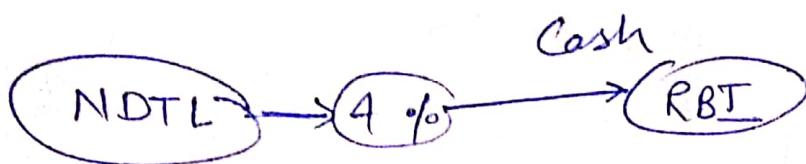
- CRR
- SLR

### 2 Policy Rates

- Repo Rate / Policy Repo Rate
- Reserve Repo Rate
- Bank Rate
- MSF

### 3> OMO

## CRR



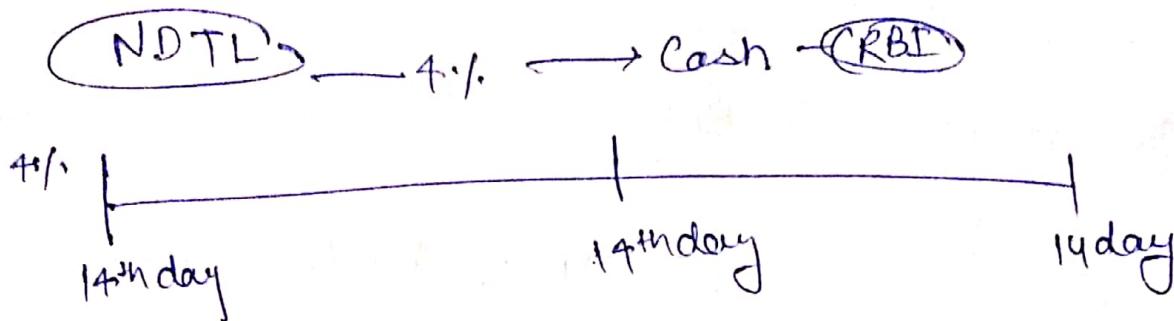
The four percent of NDTL the be

The average daily balance that a bank is required to maintain with RBI in the form of cash of a certain percentage of NDTL. The requirement applies uniformly to all banks in the country irrespective of the bank's financial position & situation.

As per the RBI Act 1934, all schedule commercial banks that includes public and private sector banks, foreign banks, Regional Rural Banks and Cooperative banks are required to maintain on average with the RBI on a fortnightly basis as per the CRR requirement.

Banks have to maintain 100% CRR on an average basis during the fortnight i.e., it is not necessary that on all days CRR has to be at 100%.

(6)



But RBI amendment Act 2006, removed the lower limit and Upper limit of CRR and authorised the RBI to decide any level of CRR as per the requirement of the economy. RBI does not pay any rate of interest on the deposits of CRR.

If a bank fails to meet its required CRR requirement the RBI is empowered to impose the penalty by charging a Penal rate of interest.

### Incremental CRR (100%)

26<sup>th</sup> Nov, 2016

Applicable  $\rightarrow$  16 Sep 2016

11<sup>th</sup> Nov, 2016

On Nov 26<sup>th</sup>, 2016, the RBI had announced an incremental CRR of 100% of the increase in NDTL of schedule banks between 16 Sep 2016 and 11<sup>th</sup> Nov 2016.

## CRR and Money Supply

If RBI increases the CRR then liquidity with bank will decrease because more cash Bank has to deposit with RBI. It will decrease lending potential of banks which leads to fall in credit creation as a result the money supply in the country will decrease and vice-versa.