Biyani's Think Tank

Concept based notes

Banking and Finance

(B.Com. Part-I)

Poonam Somani
Deptt. of Commerce & Management
Biyani Girls College, Jaipur

Biyani's Group of Girls' Colleges

For More Detail: - http://www.gurukpo.com

Published by :
Think Tanks
Biyani Group of Colleges

Sector-3, Vidhyadhar Nagar,
Jaipur-302 023 (Rajasthan)
Ph : 0141-2338371, 2338591-95 • Fax : 0141-2338007
E-mail : acad@biyanicolleges.org
Website :www.gurukpo.com; www.biyanicolleges.org

First Edition: 2009
Second Edition: 2010

Leaser Type Setted by :
Biyani College Printing Department

Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Syllabus

B.Com. Part-I

Banking and Finance

Section-A

Bank-Definition and functions, methods of credit creation, A brief study of Regional Rural Banks, Investment Bank and Development Banks, A study of R.B.I., & NABARD. Recent trends in Indian Banking (E-Banking, innovative banking).

Section-B

Relationship between Banker and customer, negotiable instruments. Cheques, Bills of Exchange and Promissory notes. Endorsement and crossing, Presentation, collection and payment of Negotiable instruments, Dishonour of Cheques and itslegal provisions, Salient features of the Banking Regulation Act.

Section-C

Nature and Scope of Public finance. Principle of maximum social advantage. Public expenditure, Cannons and effect, major trends of Public expenditure in India. Cannon of taxation, public debt in India, Centre & State finance relations, Deficit financing with special reference to India.

□ □ □

Content

21.	Deficit Financing	93-94

□ □ □

Chapter-1

Bank: Definition and Functions

Q.1. Define Bank?

Ans.: According to Indian Banking Companies Act, "Banking Company is one which transacts the business of banking which means to accepting for the purpose of lending or investment of deposits of money from the public repayable on demand or otherwise and withdraw able by cheque, draft, order or otherwise."

Q.2. Write short note on the role of Banks in the Economic Development of a Country?

Ans.: (1) Banks help in remitting money from one place to another.

(2) The banks encourage industrial innovations and business expansion.

(3) Banks extend lockers facilities and make customers free from risk.

(4) Banks regulate the supply of money in an economy through credit creation.

Q.3. Differentiate between Cash Credit and Overdraft?

Ans.: Under cash credit bank gives loan to the borrowers against the security. The interest is charged only on used funds. Overdraft facilities are a temporary arrangement by which the customer is allowed to withdraw from his account. Under this the interest is charged on one amount overdrawn.

Q.4. What are the different Deposit Accounts of the Banks?

Ans.: (1) **Fixed or Time Deposit Accounts :** Cash is deposited in this account for a fixed period. It attracts high rate of interest. It is also called ***'Time Liability of the bank'.***

(2) **Current or Demand Deposit Account :** A depositor can deposit ;his funds any number of times he likes and can also withdraw the same any number of times he wishes. Generally negligible amount of interest is being paid.

(3) **Saving Deposit Account :** The A/c is meant for encouraging small savings. Some restrictions are imposed by bank on the amount to be withdrawn by the depositor. Rate of interest paid is less than the rate of interest paid on fixed account.

(4) **Home Safe Saving Account :** A small portable safe is provided to the depositor at this place. Key of safe is kept by the bank virtually. Banks collect the saved amount by deputing an agent to the place of the depositor. Interest paid on this account is less than one paid on saving account.

(5) **Recurring Deposit Account :** Under this account, a specified amount is deposited every month for a specific period, say 12,24,36 or 60 months. This amount cannot be withdrawn before the expiry of given period except under exceptional circumstances. Interest paid on this account is higher than other accounts.

Q.5. Discuss the main functions of a Modern Commercial Bank.

Ans.: (1) **Accepting of Deposits :** A bank accepts deposits from the public. People can deposit their cash balances in either of the following accounts as per the convenience.

(i) **Fixed or Time Deposit A/c :** Cash is deposited for a fixed period. The depositor gets receipts for the amount deposited. It is called F.D. receipt. It comprises the name of the depositor, amount, rate of interest and the period of deposit. This type of deposits attract high rate of interest. It is also called Time liability of the bank

(ii) **Current or Demand Deposit A/c :** A depositor can deposit his funds any number of times he likes and can also withdraw the same any number of times he wishes. Ordinarily businessmen open such type of account. The amount from this is withdrawn through cheques. This is also called Demand Liability. Generally, no interest is paid by the bank on such A/c. Rather it demands some charges if the amount lying in the account falls below the minimum limit.

(iii) **Saving Deposit A/c :** This A/c is meant for encouraging small savings. Bank pays interest on this account although its rate is less than the rate paid on fixed account.

(iv) **Home Safe Saving A/c :** This A/c has been introduced recently by the banks. A small portable safe is provided to the depositor at his place. Key of the safe is kept by bank. Generally amount is collected by an agent to the place of depositor. Interest paid on this A/c is less than the one paid on saving A/c.

(2) **Advancing of Loans:** Bank advances following types of loans :

(i) **Cash Credit:** The debtor is allowed to withdraw a certain amount on a given security. The debtor withdraws the amount within this limit, as per his requirement and also repays it. Interest is charged by the bank on the amount actually withdrawn.

(ii) **Overdraft :** Clients who have current A/c with the bank get the sanction to withdraw more money than is lying in the said account. It is called overdraft. This facility is available for a short term.

(iii) **Loans & Advances :** These loans are given in the form of fixed amount. Bank enters the amount of loan in the A/c books of the debtor. The latter can withdraw it any time. The interest is chargeable on the whole amount from the day loan is sanctioned irrespective of the fact that the debtor withdraws the whole or part of it.

(iv) **Discounting of B/E :** Under this method, banks give advance to their clients on the basis of their B/E before the maturity of such bills.

(v) **Credit Creation :** One of the main functions of banks these days is to create credit. Banks create credit by giving more loans than their primary deposits.

Secondary Functions: Besides the above primary functions, banks also perform many secondary functions which are as follows:

(i) **Collection & Payment of Various Items :** Bank collects cheques, rent, interest etc. on behalf of their customers and also make payments of taxes, insurance premiums etc. on their behalf.

(ii) **Purchase & Sale of Securities:** Banks normally are more knowledgeable with regard to stock and share business. As such, they buy, sell and keep in safe custody, the securities on behalf of their customers.

(iii) **Trustee & Executor :** Bank also acts as a trustees ;and executors of the property of their customers on their advice.

(iv) **Remitting of Money :** Banks also remit money from one place to the other through bank drafts.

(v) **Purchase and Sale of Foreign Exchange :** Bank can buy and sell foreign exchange and this promote International trade. This function is discharged by foreign exchange banks.

(vi) **Other Agency Functions :** The bank also acts as an agent or representative. The bank may obtain passports, traveler's tickets and even secure air tickets for its customers.

(vii) **Underwriting :** Bank performs the functions of underwriting by providing minimum guarantee for the purchase of shares, debentures etc. Bank charges commission for such services.

(viii) **Letter of References :** If desired by the customer, the bank can be a referee i.e. who could be referred by their parties for seeking information regarding the financial position of the customer.

(3) **General Utility Functions :** Bank also provides following general utility services to its customers :

(i) **Locker Facilities :** Banks ;provide locker facilities to their customers. People can keep their gold or silver or other important documents in these lockers. Their annual rent is very nominal.

(ii) **Traveler's Cheque & L/C :** Bank issue traveler cheque and Letter of Credit (L/C) to their customers so that they may be spared from the risk of carrying cash during their journey.

(iii) **Business Information & Statistics :** Being familiar with the economic situation of the country, the banks give advice to their customers on financial matters on the basis of business information & statistical data collected by them.

(iv) **Helps in Transportation of Goods :** Big businessmen after consigning goods to their retailers send the Railway Receipt to the bank. The retailers get their receipt from the bank on payment of the value of consignment. Having obtained the Railway Receipt from the bank, they get delivery of consignment from the railway goods office; thus bank helps in transportation of goods from the production centres to the consumption centres.

(v) **Giving Information about its Customers :** Since the bank is closely related with its customers, it can pass on reliable information about their credit worthiness to other concerned parties.

(vi) **Financial Advisor :** Since bank knows about economic situation in the country, it is in a position to render useful advice to its customers on financial matters.

(vii) **Guarantor of Loans :** Modern commercial banks act as guarantor of the loans of industrial and business house created by financial institution.

(viii) **Foreign Exchange Transactions :** Some commercial banks also take the responsibility of F.E transactions. They have separate F.E. Deptt. for this purpose.

(ix) **Merchant Bankers :** Commercial bank help in availing loans from non banking financial institutions. However, in recent past, most of the banks have transferred the Merchant Banking Services to separate subsidiaries.

(4) **Financial & Managerial Arrangement for Foreign Trade (F.T.) :** They have played important role in expansion of F.T. They make available short term credit to the traders engaged in F.T. They issue L/C and discount bills, establish relationship between importers and exporters, thus expand F.T.

□ □ □

Chapter-2

Methods of Credit Creation

Q.1. What is Credit?

Ans.: Credit is an exchange function in which creditor gives some goods service or money to debtor with a belief that after some time he will return it with interest.

Q.2. What are the basis or elements of Credit?

Ans.: (i) Confidence (ii) goodwill

(iii) Capacity (iv) Security

(v) Period of Credit (vi) Size of Credit.

Q.3. What is Credit Creation?

Ans.: In the words of **Newlyn**, "Credit creation refers to the power of commercial banks to expand secondary deposits either through process of making loans or through investment in Securities."

Q.4. How is credit created by Commercial Banks?

Ans.: (1) **Credit Creation by Issue of Bank Notes :** Credit is created by banks through issuing of notes. In the beginning, the function of note issue was carried on by commercial banks. But now every country has set up central Bank. It is an apex bank which has monopoly power of issuing note. That part for which a certain portion of metal reserves are kept, this is the basis of credit creation. Thus, in our country RBI creates credit through the monopoly power of note issue.

(2) **Bank Deposits :** The basis of credit creation is bank deposits. Based on the views of keyness Philips, two types of deposits have been i) Primary deposits ii) Derivative or Secondary Deposits.

(i) **Primary or Cash Deposits** : The amount deposited in cash by the public in banks is called cash or primary deposit. It is called passive deposits because in its creation bank has no contribution. The amount of such deposits depends on the depositors.

(ii) **Derivative or Secondary Deposits :** Whenever a person approaches a bank for loan, he is not given this loan in cash form, rather an account is opened in his name and he is allowed to withdraw the required amount by drawing a cheque. Such deposit is called secondary or derivative deposits. Thus every loan advanced by bank creates new deposit. Secondary deposit is the result of primary deposit because the bank creates secondary deposit by keeping a part of primary deposit in reserve.

According to **Halm**, "Creation of secondary deposits is credit creation." Larger the amount that a bank advances greater is the creation of secondary deposits or loans created. That is why it is said "Loans create deposits and deposits create loans."

(iii) **Credit Creation through Discounting of Bill of Exchange :** Commercial banks discounts promissory notes, bills of exchange, hundies, securities etc. They are bought and sold by the banks.

This function creates credit. Generally B/E are transferable from one person to many persons and the transaction is finalized as the cash is used. Thus commercial banks create credit by accepting and discounting A/c.

Q.5. "Loans are the children of deposits and deposits are the children of loan." Discuss this statement with examples.

OR

Discuss the process of Credit Creation by Bank.

Ans.: The process of credit creation can be studied in two parts :

(1) Single Banking System

(2) Multiple Banking System

(1) **Credit Creation in a Single Banking System :** It means there is only one bank in the country. All transactions are done by this bank only. There can be two basis of credit creation.

(2) **Basis of Credit Multiplies :** Suppose a person deposits Rs.10000 in a bank. This amount of Rs.10000 will become primary deposit. Bank knows by experience that all depositors do not withdraw their money at one time. Thus, let us suppose bank kept 10% of total deposits in cash and advances the remaining as loans. Hence, bank keeps Rs.1000 in cash and the remaining amount of Rs.9000 is given as loan to Mr. 'A'. Bank does not give this loan in cash but opens a current account in his favour and credits this amount of Rs.9000 into this account. Bank permits Mr. 'A' to issue cheques to the amount of Rs.9000 only. Let us suppose that Mr. 'A' owes Rs.9000 to one Mr. 'B' and he discharges this liability by issuing him a cheque for Rs.9000 only. Mr. 'B' deposits this cheque in the same bank in his account. The bank will debit Rs.9000 lying in the account of Mr. 'A' and credit the same to the account of Mr. 'B'. In this way, there will be an increase in the deposits of the bank to the extent of Rs.9000. The bank will keep 10% of this deposit as its reserve and give a loan of Rs.8100 to yet another borrower Mr. 'C'. The process will thus go on for a long time. Process can also be explained with the help of following table :

Process of Credit Creation

Round	**Primary Deposit**	**CRR 10%**	**Loans or Secondary Deposits**
First	10,000.00	1,000.00	9,000.00
Second	9,000.00	900.00	8,100.00
Third	8,100.00	810.00	7,290.00
-	-	-	-
-	-	-	-
-	-	-	-
Total	**27,100.00**	**2,710.00**	**24,390.00**

$$TD = P\ X\ \frac{1}{CRR}$$

It is clear from the above table that total created credit will be Rs.27100.00, out of which Rs.2710.00 will be kept by bank as CRR and the remaining Rs.24390.00 will constitute loans.

Credit Equation & Credit Multiplies : alike

$$\textbf{Cash Reserve Ratio (r)} = \frac{\textbf{Primary Deposit (P)}}{\textbf{Total Deposit (D)}}$$

If there is change in primary deposits then

$$r = \frac{\Delta P}{\Delta D} = \frac{1}{r} \text{ (Credit Multiples)}$$

Total Increase in Bank Deposit = Primary Deposit in the First Round + Secondary Deposit in the 2^{nd} Round + ... + Secondary Deposit in n^{th} Round

$$\Delta D = \Delta P + \Delta P(1 - r) + \Delta P(1 - r)^2 + \ldots\ldots + \Delta P(1 - r)^n$$

Let us assume, Total Deposit = 10000 + 9000 + 8100 + 7290 +. . . . .

$$= 10000 + \frac{9}{10}(10000) + \left(\frac{9}{10}\right)^2 (10000) + \left(\frac{9}{10}\right)^3 (10000) + \ldots\ldots\ldots$$

$$= 10000\left[1 + \frac{9}{10} + \left(\frac{9}{10}\right)^2 + \left(\frac{9}{10}\right)^3 + \ldots\ldots\ldots\right]$$

$$= \quad 10000\left[\frac{1}{1-\frac{9}{10}}\right] \quad = \quad 10000\left[\frac{1}{\frac{1}{10}}\right] \quad = \quad \text{Rs.}1{,}00{,}000.00$$

Credit creation by multiple banking system: In real world, there is not only one bank in economy, rather there are many banks functioning therein. A large single bank cannot create more credit than its excess reserve but multiple banking systems can create many times more credit than its primary deposits. intensity

On the Basis of Credit Multiplies : Supposing there are many banks in an economy. A person deposits with bank 'A' a sum of Rs.10000 in cash. Suppose bank keeps 10% of the total deposits as cash reserve and gives the remaining amount on loan. Bank A keeps Rs.1000 as cash and gives the remaining amount on loan. Bank 'B' keeps Rs.1000 as cash and gives Rs.9000 as loan to Mr. 'M'. This man issues a cheque of Rs.9000 to another person who has his account in Bank 'B'. That person deposits this cheque of Rs.9000 in bank 'B'. Now bank 'B' keeps 10 percent of Rs.9000, that is, Rs.900 as cash reserve and gives the remainder Rs.8100 to a person who has his account in bank 'C'. Receipt amount of due cheque will therefore deposit the same in bank 'C'. In this way the primary deposits of bank 'C' will increase by Rs.8100. Now Bank 'C' will keep 10% of it i.e. Rs.810 as reserve and give the remainder amount of Rs.7200 as loan to another needy person. This process will continue till all banks create credit to the tune of Rs.90000 on the basis of a primary deposit of Rs.10000 only.

The process can be explained with the help of following table :

Banks	**Primary Deposits**	**Required Cash Reserve**	**Loan**
A	10,000.00	1,000.00	9,000.00
B	9,000.00	900.00	8,100.00
C	8,100.00	810.00	7,290.00
D	-	-	-
E	-	-	-
F	-	-	-
Total	**1,00,000.00**	**10,000.00**	**90,000.00**

Thus we can see that an increase in primary deposit amounting to Rs.10000 will ultimately enable the banking system to advance loans to the tune of Rs.9000, provided 10% of due primary deposit is kept as cash reserve. In other words, credit worth Rs.90000 will be created in the banking system as a whole.

Q.6. What are the limitations of Credit Creation?

Ans.: If people's liquidity preference is very high, then the bank's ability to create credit will be limited.

(i) If people's liquidity preference is very high, then due banks' ability to create credit will be limited.

(ii) If proper securities are not available, bank may be handicapped in the matters of extending credit.

(iii) If people carry out transactions by means of cash, then also credit creation remains frozen.

(iv) Credit creation depends upon business conditions e.g. if boom, more credit is required otherwise vice versa.

(v) Idle cash balances by the public also limit credit creation by banks.

□ □ □

Chapter-3

Regional Rural Banks

Q.1. Name the Committee who has recommended for setting of RRB.

Ans.: Banking Commission headed by **Mr. M. Narasimham.**

Q.2. Why RRBs were needed?

Ans.: The Regional Rural banks are co-operatively new agency set up to supplement the efforts of cooperative & commercial banks. Following are some reasons for setting up RRBs. :

(i) To provide cheap credit for the marginal farmers and landless laborers in rural areas.

(ii) To implement 20-point economic programme of Government of India.

(iii) To free rural people, small and marginal farmers from the clutches of money lenders.

(iv) To provide banking services to rural community.

(v) To provide finance to those who do not fulfill creation of credit worthiness as per banking rules & regulations.

(vi) Credit agencies, the cooperative banks and commercial banks lacked in certain respects in meeting the credit needs of the rural areas.

(vii) Commercial banks are urban oriented and of staff with peoples approach to deal with rural clients.

Q.3. When for the first time RRBs were set up.

Ans.: In June 1975 during emergency, GOI declared the 20-point Economic Programme. One of the points of the programme was the provision of cheap credit for the marginal farmers and landless labourers etc. In order to implement this point, the GOI decided to set up RRBs all over the country. Thus RRB ordinance came into force with effect from 26th Sep., 1975. Later on RRB Act was passed in 1976. In the beginning, 5 RRBs were set up on Oct 2, 1975 at Moradabad, Gorakhpur (U.P), Bhiwani (Haryana), Jaipur (Rajasthan) and Malda (West Bengal). As on March 31, 2009, there are 86 RRBs with their 15,235 branches. They are working in 586 districts all over the country. NABARD is looking after the working of RRBs, which initially worked under Reserve Bank of India.

Q.4. Write down objectives of RRBs?

Ans.: The following were the objectives of RRBs :

(i) To develop the rural economy of the country by providing financial assistance to agriculture, trade, commerce, industries and other activities.

(ii) To mobilize rural savings and spread banking habits in rural areas.

(iii) To bring down the cost of rural banking.

(iv) To provide credit and other facilities, particularly to the small & marginal farmers, agricultural labourers, artisans and small entrepreneurs in rural areas.

(v) To provide banking facilities to the backward and tribal areas of the country where banking facilities have not reached so far.

Q.5. Give salient features of RRBs.

Ans.: Following are the main features of RRBs. :

(i) The area of operation is broadly confined to a district.

(ii) The loans and advances are to be given to small & marginal farmers, agricultural labourers, small artisans and small entrepreneurs.

(iii) The objective of RRBs is not profit or substitution of commercial bank, but provision of finance to rural people.

(iv) The operating cost is low because they operate on regional basis.

(v) The pay scale of RRBs staff resembles state Govt.employees.

(vi) Working is very simple and free from unnecessary formalities.

(vii) Since RRBs are included in II schedule of RBI Act; so they enjoy facilities and privileges given to other scheduled banks.

(viii) These banks provide ½% more interest on deposits.

(ix) Lending rates are not higher than that of cooperatives.

(x) RRBs also attract deposits.

(xi) Refinance facilities are availed from NABARD.

(xii) Deposits with them are insured by DIGC/DIC (Deposit Insurance Corporation).

Q.6. What are the problems of RRBs.

Ans.: Following are the problems of RRBs. :

(i) Problem of multi agency control

(ii) High overdue

(iii) Political intervention

(iv) Heavy losses

(v) Lack of adequate staff

(vi) High interest rate

(vii) Lack of deposits

(viii) Regional disparities

(ix) Lack of financial resources

Q.7. What are the suggestions to improve working of RRBs.

Ans.: (i) Area of operation should be smaller one.

(ii) Loans should be given the freedom of generating their own financial resources.

(iii) Loans should be sanctioned to real beneficiaries.

(iv) Political intervention should be stopped.

(v) Maximum efforts for loan recovery.

(vi) Government assistance.

Q.8. Name the important Committees which were constituted for the evaluation of RRBs.

Ans.: (i) Shri Chalapati Rao Committee

(ii) M. Narasimham committee

(iii) M.C. Bhandari Committee

□ □ □

Chapter-4

Investment & Development Banks

Q.1. What is Investment Bank?

Ans.: In India, the term Investment Bank refers to the Institution which undertakes medium and long term investments. Such an institution may be a commercial bank, industrial bank and investment institution like LIC and Mutual Funds.

Q.2. When Unit Trust of India came into existence?

Ans.: UTI came into existence in **February, 1964.**

Q.3. Tell the objectives of UTI.

Ans.: (i) To stimulate and pool the small savings of people.

(ii) To enable the Unit holders to share benefits of rapidly growing industrialization in the country.

Q.4. When was LIC nationalized.

Ans.: It was nationalized on **1st Sept. 1956.**

Q.5. What are the functions of LIC.

Ans.: (i) Sale and Purchase of any assets to conduct its business successfully.

(ii) To grant loans on the security of assets and other securities.

(iii) To perform all such functions which are helpful in achieving objectives of the corporation.

Q.6. What is a Mutual Fund.

Ans.: This main function is to mobilize the saving of general public and invest them in stock market securities.

Q.7. Give some examples of MFs working in India.

Ans.: At present the following MFs are in existence :

(i) SBI MF

(ii) Indian Bank MF

(iii) GIC MF

(iv) Overseas MFGs

(v) PNB MF

Q.8. What is meant by Development Banking?

Ans.: Development banks are those banks which are engaged in the promotion and development of industry, agriculture, exports and other key sectors.

Q.9. Give two points of differences between Development Bank and Commercial Banks.

Ans.: (i) Commercial Banks accepts deposits from public but Development Bank does not.

(ii) Commercial Bank's main motive is to earn profit, but Development Bank's motive is to serve public and national interest.

Q.10. Give any five objectives of Development Banks.

Ans.: (i) To provide development assistance for various development activities.

(ii) Balance regional development.

(iii) To provide financial assistance to small entrepreneurs.

(iv) To promote new entrepreneurs.

(v) To provide technical knowledge to entrepreneurs.

Q.11. Write down names of any five Development Banks.

Ans.: (1) IDBI – Industrial Development Bank of India

(2) IFCI – Industrial Finance Corporation of India

(3) ICICI – Industrial Credit and Investment Corporation of India

(4) NABARD – National Bank for Agricultural and Rural Development

(5) IIBI – Industrial Investment Bank of India Ltd.

Q.12. What are the shortcomings of Development Banks.

Ans.: (i) Lack of adequate capital.

(ii) Ignores the problem of industrial schemes.

(iii) Indirectly banks are contributing in concentration of economic powers.

(iv) Objective of regional equality could not be achieved due to inability.

(v) Loans are generally provided to established entrepreneurs; therefore hampers growth of new entrepreneurs.

□ □ □

Chapter-5

Reserve Bank of India

Q.1. Who is the Governor of Reserve Bank of India?

Ans.: Dr. D. Subba Rao

Q.2. Who is the top official of R.B.I.?

Ans.: Governor

Q.3. Write any four achievements of R.B.I.

Ans.: (i) As an Advisor to the Govt.

(ii) Control of Inflation.

(iii) Remitting Facility

(iv) Clearing Houses

Q.4. What are the functions of R.B.I.?

Ans.: (i) Issue of Notes

(ii) Banker, Agent and Advisor to the Govt.

(iii) Banker's Bank and Lender of last Resort.

(iv) Credit Control.

Q.5. Discuss the evaluation of R.B.I.

Ans.: Since its establishment, RBI is working as Central Bank of India. The RBI takes all possible steps from time to time to stimulate the economic growth of the country. RBI has contributed a lot in strengthening banking system, providing finance for development and successful operation of monetary and credit policy of country.

Q.6. What are the objectives / reasons for the establishment of R.B.I.?

Ans.: (i) To manage the monetary and credit system of the country.

(ii) To stabilize internal & external value of rupee.

(iii) For centralization of cash reserves of commercial banks.

(iv) To regulate the issue of bank notes.

Q.7. Write down Administrative Departments of R.B.I.

Ans.: (i) Deptt. of Currency Management

(ii) Deptt. of Banking Supervision

(iii) Exchange Control Department

(iv) Rural Planning & Credit Department

(v) Deptt. of Banking Operations and Development

(vi) Secretary's Department

(vii) Industrial and Export Credit Department

(viii) Deptt. of Administration and Personnel Management

(ix) Deptt. of Non Banking Supervision

(x) Deptt. of Govt. and Bank Accounts

(xi) Internal Debt Management Cell

(xii) Inspection Department

(xiii) Deptt. of Information & Technology

(xiv) Other Deptt. – Premises Deptt., Press Relation Deptt., Personnel Policy Deptt. etc.

Q.8. What are the prohibited functions of R.B.I.

Ans.: (i) It cannot undertake or enter into any trade or business.

(ii) It cannot grant unsecured loans & advances.

(iii) It cannot give interest on deposits or current account.

Q.9. Write down the contribution of RBI in Economic Development.

Ans.: (i) Issue & Control of Money

(ii) Development of Banking & Financial Institutions.

(iii) Increase in Capital Formation.

(iv) Administration of Foreign Reserves.

(v) Development of Cooperative Institution.

(vi) Management of Public Dept.

(vii) Balanced Development.

(viii) Credit Control.

(ix) Economic & Technical Advice.

Q.10. Write down the instruments of Monetary or Credit Policy of R.B.I.

Ans.: (1) Quantitative Methods

(a) Bank Rate

(b) Open Market Operation

(2) Qualitative Methods

(a) Selective Credit Control

(b) Rationing of Credit

Q.11. Discuss any four failures of R.B.I.

Ans.: (i) Fail to control Inflation.

(ii) Decrease in Exchange Rate of Rupee.

(iii) Lack of strong Banking System.

(iv) Ineffective control on Non-banking Institutions.

□ □ □