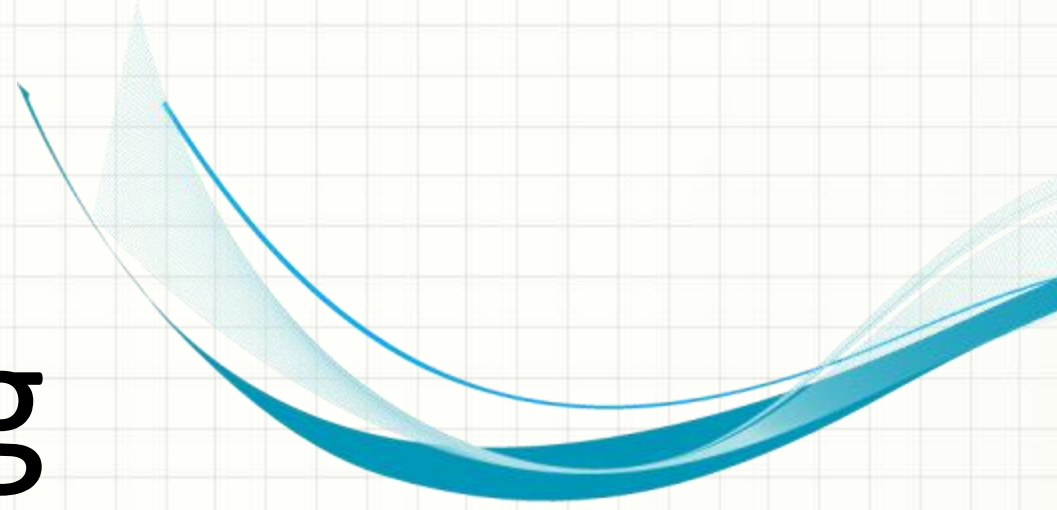


Banking

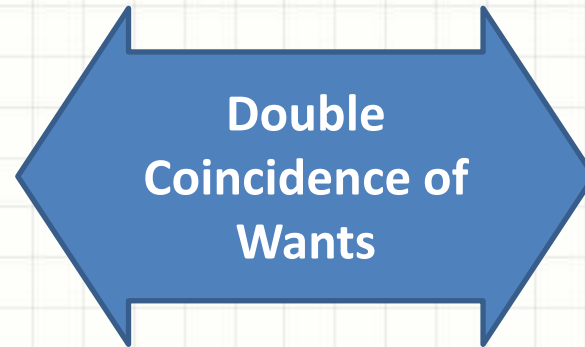


Azad

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Before Money was Invented

Onion
2KG



RICE
5KG

Money

Gold/Silver
Coins
Intrinsic Money

Paper Money
Extrinsic

Plastic Cards
Extrinsic Money

Digital Currency
Extrinsic Money

Bank

is a financial institution

- which accept deposits
- Lends to potential borrows
- Allows the depositors to withdraw via cheque

Supply Demand

Onion Onion
10 Kg 1 Kg
INCREASE CONSTANT
Supply Supply

100 1000
Rupees Rupees
INCREASES
Demand Demand



Bring in More Cash

Inflation

Combat Inflation

1

- Reduce Money Supply

2

- Tight Money Policy

3

- Dear Money Policy

Combat Deflation

1

- Increase Money Supply

2

- Easy Money Policy

3

- Cheap Money Policy

Monetary Policy: Instruments

- Reserve Ratio (CRR, SLR)
- Rates (Repo, RR, Bank Rate)
- Consumer Credit Control, Down-payment, Credit Rationing – Priority Sector Lending Direct Action.

Reserve Ratio (cannot lend)

CRR = Cash Reserve Ratio (4%) – in the form of cash only (No Profit)

SLR = Statutory Liquidity Ratio (22%) – in the form of Gold, Cash, or Government Bonds (Some Profit)

Net Demand and Time Liabilities

NDTL = Demand Deposits + Time Deposits

- Saving account
- Current account
- Fixed Deposit
- Cash Certificates,
- Staff Security Deposits

INFLATION CONTROL (AN EXAMPLE)



NDTL = 2Cr

CRR + SLR = 0%

Avail Money = 2CR

Loan = 10%

10% of 2Cr = 20Lakh



55,000

Effect

Inflation	Deflation
RBI ▲ CRR/SLR	RBI ▼ CRR/SLR
Banks have less money to lend	Banks have more money to lend
▲ Interest Rate	▼ Interest rate (new client)
People borrow ▼	People borrow ▲
Demand ▼	Demand ▲
Prices ▼	Prices ▲
Inflation controlled	Deflation Controlled

Tight | Dear Money Policy

Easy | Cheap Money Policy

Mock Question

Q: Find **Correct** Statements

- a) To combat inflation, RBI should pursue Cheap Money Policy
(WRONG, follow Dear | Tight Money policy)
- b) To combat deflation, RBI should increase SLR
(WRONG, should decrease SLR)
- c) Both a) & b) (WRONG)
- d) Neither a) nor b) (Correct)