SSC

SMIT SIR COMMERCE

GSEB | ENGLISH MEDIUM

ECONOMICS

STANDARD 12

CHAPTER 4

Banking and Monetary Policy

Complete Concept Notes | Textbook-Based | Board Exam Preparation

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Learn the Concept. Understand the Logic. Write Better Answers.

How These Notes Are Built

These notes are rebuilt from the official GSEB Class 12 Economics Chapter 4. The earlier notes you supplied are used only to cross-check coverage; the official textbook structure remains the main basis.

- Every official heading from Evolution of Banks to Monetary Policy Instruments is covered.
- Commercial-bank functions are separated into primary and secondary functions.
- Credit creation is explained with the textbook formula and worked example.
- RBI functions are organised into monetary and non-monetary functions.
- Quantitative and qualitative monetary-policy tools are explained through inflation/depression logic.
- Board-style tables, MCQs, cases, glossary and revision material are added.

TEXTBOOK DATA NOTE

This chapter contains textbook-era percentages, historical policy rates and institutional details. They are preserved as source-faithful exam content and should not automatically be treated as current RBI policy settings.

Chapter at a Glance

Section	Topic	Core Idea
4.1	Evolution & Meaning of Banks	Why banks emerged and what a bank does
4.2.1	Commercial Banks	Deposits, loans, payments, credit creation and services
4.2.1.2	Commercial Banks in India	Scheduled-bank classification
4.2.2	Central Bank / RBI	Apex bank and its functions
4.3	Monetary Policy	Policy to regulate money/credit for stability
4.3.1	Policy Instruments	Quantitative + Selective / Qualitative tools

EXAM IMPORTANT

The chapter's logic is: People save -> Commercial banks mobilise funds -> Banks create credit -> RBI regulates banks and money supply -> Monetary policy stabilises the economy.

Learning Objectives

- explain the origin and meaning of banks.
- distinguish commercial bank and central bank.
- explain all primary and secondary functions of commercial banks.
- compare current, savings, recurring and fixed deposits.
- explain credit creation and solve the textbook-style reserve-ratio example.
- explain scheduled banks and their textbook classification.
- explain RBI's monetary and non-monetary functions.
- define monetary policy and explain why it is called a stabilisation policy.
- explain all quantitative instruments of monetary policy.
- explain all selective / qualitative measures of credit control.
- show how policy tools are used differently during inflation and depression.

Introduction - Why Banks Matter

Modern monetary life is built around banks. People deposit savings, make payments, receive transfers, borrow for homes or businesses, and keep financial assets safely through banking institutions.

Money created the need for institutions that could perform three important tasks: protect money, transfer money and mobilise money. Banks grew to perform these roles.

REMEMBER THIS

A bank is not merely a place to keep cash. It is an institution that accepts funds, channels funds, creates credit and supports payments.

4.1 Evolution and Meaning of Banks

Origin of the word: The textbook connects 'bank' with ideas such as a heap/fund of money and with the Italian banca / French banque, meaning a bench used by money exchangers.

Historical source example: The textbook identifies the Bank of Barcelona, Spain (1401) as the first real bank.

As currency money became common, people needed institutional arrangements for storing value, making transfers, lending and maintaining confidence in money. This encouraged the development of banks.

TEXTBOOK DATA NOTE

Historical origin references are reproduced from the textbook for exam preparation.

Meaning of a Bank

Simple Meaning: A bank is an institution authorised to accept deposits, protect depositors' money, lend or invest funds and provide payment/financial services.

KEY TERM - BANK

An institution that accepts deposits, provides loans and financial services, and mobilises savings into productive use.

Business logic: A commercial bank generally pays interest on deposits, charges interest on loans, and earns income from the difference plus other banking services.

SMIT SIR'S NOTE

The source also stresses the idea of mobilising idle money: savings that might remain unused can be channelled into lending and investment.

4.2 Classification of Banks - Major Types

Type	Main Role
Commercial Bank	Accepts deposits, provides loans/services, operates as a banking business
Central Bank	Apex authority that regulates banking and money/credit in the economy

4.2.1 Commercial Bank

Meaning: A commercial bank is a banking business that accepts deposits from the public for lending or investment and permits withdrawal through banking instruments according to account conditions.

Why 'commercial'? It is a business organisation. It mobilises deposits, lends at a higher rate than the interest paid on deposits and may invest in securities or productive sectors.

KEY TERM - COMMERCIAL BANK

A profit-oriented banking institution that accepts public deposits and uses funds for lending, investment and banking services.

4.2.1.1 Functions of Commercial Banks

The textbook divides functions into Primary Functions and Secondary / Other Functions.

Primary Functions	Secondary / Other Functions
Accepting Deposits	Agency and Utility Services
Providing Credit Facilities	Facilities with Changing Times
Payment and Withdrawal Facilities	
Credit Creation	
Inter-Banking Transactions	

Primary Function 1 - Accepting Deposits

Banks accept money from savers and act as custodians of these funds. The chapter discusses current, savings, recurring and fixed/long-term deposits.

Deposit Type	Interest	Withdrawal / Period	Special Feature
Current Account	Normally no interest; service charges may apply	Frequent withdrawals	Highly liquid; overdraft facility; common for business
Savings Account	Interest paid	Withdraw through allowed banking methods	Designed for savings of individuals
Recurring Deposit	Interest on accumulated amount	Regular monthly deposits for a period	Useful for small, disciplined savings
Fixed / Long-Term Deposit	Higher interest than ordinary deposit accounts in textbook framing	Fixed maturity; overdraft may be possible	Longer-term saving

Current Account Deposit

A current account is suitable for businesses and people who need frequent banking transactions. Deposits and withdrawals can occur repeatedly, making it highly liquid.

Textbook features: cheque-book facility, no normal interest, possible service charges and overdraft facility.

KEY TERM - OVERDRAFT

Facility allowing an eligible current-account customer to withdraw more than the available balance up to an approved limit.

Savings Account and Recurring Deposit

Savings Account: Designed mainly for personal savings. The bank pays interest and the customer can withdraw according to the account's rules through banking instruments/services.

Recurring Deposit: A regular small amount is deposited each month for a fixed period so that savings accumulate gradually with interest.

REMEMBER THIS

Recurring deposit is presented in the textbook as a savings-oriented deposit facility for people who prefer small regular instalments.

Fixed / Long-Term Deposit

A fixed deposit is made for a predetermined period. Because funds remain with the bank for longer, the textbook presents this account as paying the highest interest among the listed deposit types.

Important: Early withdrawal rules and rates depend on bank terms; for the exam, use the textbook's comparison.

Primary Function 2 - Providing Credit Facilities

Banks lend to individuals and businesses for personal, agricultural and business/investment purposes. They charge interest on such credit.

Credit Period	Textbook Classification
Short Term	Up to 1 year
Medium Term	More than 1 year and up to 5 years
Long Term	More than 5 years and up to 15 years

SMIT SIR'S NOTE

The rate and conditions of credit vary according to purpose, risk and period.

Primary Function 3 - Payment and Withdrawal Facilities

Banks make payments and withdrawals easy through instruments and channels such as cheques, withdrawal slips, drafts, pay orders, ATMs, cards and electronic banking.

Economic importance: These services reduce the need to carry cash and make transactions faster and safer.

Primary Function 4 - Credit Creation

Meaning: Credit creation is the process through which banks expand deposits and loans from an initial deposit while keeping the required cash reserve.

KEY TERM - PRIMARY DEPOSIT

Initial deposit created when the public places savings in the bank.

KEY TERM - DERIVED / SECONDARY DEPOSIT

Deposit generated when a bank loan is credited into an account and becomes the basis for further lending.

REMEMBER THIS

A bank cannot lend the entire deposit. It keeps the required reserve and lends the remainder.

Credit Creation - Formula and Logic

EXAM IMPORTANT

Total Deposit Expansion = Primary Deposit x (1 / Cash Reserve Ratio)

Textbook example: Primary deposit = Rs. 1,000; reserve ratio = 20% = 0.20.

Total deposit expansion: Rs. 1,000 x (1 / 0.20) = Rs. 5,000.

Additional credit created: Rs. 5,000 - Rs. 1,000 = Rs. 4,000.

COMMON MISTAKE

Do not confuse total deposit expansion with additional new credit. In the textbook example, total deposits become Rs. 5,000 while additional credit is Rs. 4,000.

Credit Creation - Step-by-Step Example

Bank	Deposit (Rs.)	Reserve @ 20% (Rs.)	Loan / New Credit (Rs.)
A	1,000	200	800
B	800	160	640
C	640	128	512
...	...	...	...
Total	5,000	1,000	4,000

SMIT SIR'S NOTE

Each bank's loan becomes someone else's deposit. This chain continues until reserve requirements absorb the lending capacity.

Primary Function 5 - Inter-Banking Transactions

Banks also lend to one another. The textbook explains very short-term inter-bank credit through the central bank as call money. The interest rate on such borrowing is called the call money rate.

KEY TERM - CALL MONEY

Very short-term funds lent between banks / financial institutions in the money market.

Secondary Function 1 - Agency and Utility Services

- Letter of Credit: Bank may act as an intermediary in trade transactions.
- Underwriting: Bank may support issue-related financial services.
- Tax Payments: Customers may pay prescribed government challans through banking channels.
- Safe Deposit Vaults: Jewellery/documents can be stored securely.
- Microfinance: Small-value finance can support tiny businesses and communities.
- Draft / Pay Order: Secure payment instruments may be issued.

Secondary Function 2 - Facilities with Changing Times

Modern banking increasingly uses electronic systems.

- NEFT: National Electronic Fund Transfer.
- RTGS: Real Time Gross Settlement.
- CORE Banking: Centralized Online Real Time Exchange - textbook expansion used for networked banking.
- Internet / Mobile Banking: Account access, payments, purchases and other services.
- DEMAT Account: Electronic holding of shares, debentures, bonds and similar securities.

4.2.1.2 Presence of Commercial Banks in India

The textbook explains that commercial banking in India includes public-sector, private-sector and foreign/multinational banks, while regional rural banks and co-operative banks also form important parts of the scheduled-banking structure.

KEY TERM - SCHEDULED BANK

A banking company listed in the Second Schedule of the RBI Act, 1934, according to the textbook definition.

Scheduled Banks in India - Textbook Classification
Public Sector Commercial Banks
Private Sector Commercial Banks
Foreign / Multinational Banks in India
Regional Rural Banks (RRBs)
Co-operative Banks

4.2.2 Central Bank

Meaning: The central bank is the apex monetary institution of a country. It regulates the banking system, money/credit conditions and works to maintain monetary and financial stability.

R. P. Kent - source idea: The central bank manages expansion and contraction of money in the interest of public welfare.

KEY TERM - CENTRAL BANK

Apex bank responsible for regulating the banking and monetary system of the country.

Commercial Bank vs Central Bank

Basis	Commercial Bank	Central Bank
Main Purpose	Banking business and customer services	Monetary/financial stability and regulation
Public Deposits	Accepts public deposits	Does not operate as ordinary public deposit bank
Loans	Lends to customers	Lends/assists banking system and government in its central-bank role
Currency Issue	No sole note-issue authority	Central monetary authority has currency-issue role
Regulation	Is regulated	Regulates/supervises banks
Monetary Policy	Follows policy framework	Formulates/implements monetary policy
Number	Many commercial banks	One central bank for the country
Profit Motive	Commercial orientation	Public-welfare/stability orientation

4.2.2.1 Reserve Bank of India - RBI

- RBI is the central bank / apex bank of India.
- Established under the RBI Act, 1934 and began operations on 1 April 1935.
- The textbook states an initial private paid-up capital of Rs. 5 crore.
- RBI was nationalised on 1 January 1949.
- It supervises/regulates the banking sector and formulates monetary policy.

TEXTBOOK DATA NOTE

Dates and historical establishment details above are direct textbook facts. Policy operations and currency rules can change over time; use the prescribed source for exam answers.

4.2.2.2 Functions of Reserve Bank of India

Monetary Functions	Non-Monetary Functions
Currency Issue	Regulatory and Supervisory Functions
Banker to the Government	Promotional Functions
Bankers' Bank and Lender of Last Resort	Financial Inclusion and Development
Credit Control	
Custodian of Foreign Exchange Reserves	

1. Currency Issue

The textbook assigns RBI the central role in issuing currency notes, while noting the special treatment of the one-rupee note and coins through the Government of India framework.

Exam Logic: The exam point is RBI's central currency-issue responsibility.

2. Banker to the Government

RBI acts as banker, adviser and agent to central and state governments, manages government accounts/securities and provides financial services to government.

Exam Logic: Government banking is handled through the central bank.

3. Bankers' Bank and Lender of Last Resort

RBI holds/monitors bank reserves, guides the banking system and can provide emergency support to scheduled banks.

Exam Logic: If a bank faces an emergency liquidity need, the central bank is the final support institution.

4. Credit Control

RBI regulates credit creation and money supply through monetary-policy instruments.

Exam Logic: CRR, repo, OMO and other tools influence lending.

5. Custodian of Foreign Exchange Reserves

RBI manages foreign-exchange reserves and may intervene in foreign-exchange markets to support monetary/exchange stability.

Exam Logic: It monitors inflow/outflow of foreign exchange.

1. Regulatory and Supervisory Functions

RBI supervises the financial/banking system, including bank operations and other regulated financial entities described by the textbook.

2. Promotional Functions

RBI promotes banking awareness, branch expansion and organised banking, particularly to extend banking access.

3. Financial Inclusion and Development

RBI supports access to finance for priority sectors and works to extend banking benefits across diverse groups and regions.

TEXTBOOK DATA NOTE

The textbook mentions programmes and policy examples from its publication period, including Jan Dhan Yojana. Use those references as textbook context.

4.3 Monetary Policy

Meaning: Monetary policy is the policy of the apex monetary authority for regulating money supply, credit conditions and the cost/availability of money so as to maintain economic stability.

KEY TERM - MONETARY POLICY

Policy used by the central bank to influence money and credit in pursuit of economic stability and broader economic objectives.

Why needed? An imbalance between demand for money and supply of money can contribute to inflation, deflation, instability in the value of money and wider economic disturbance.

REMEMBER THIS

Monetary policy is called a stabilisation policy because it is used to reduce excessive inflationary or deflationary pressure.

4.3.1 Instruments of Monetary Policy

Quantitative / General Measures	Qualitative / Selective Measures
Bank Rate	Security Requirement
Repo Rate & Reverse Repo Rate	Margin Requirement
Marginal Standing Facility (MSF)	Ceiling on Credit
Cash Reserve Ratio (CRR)	Discriminatory Interest Rate
Statutory Liquidity Ratio (SLR)	
Open Market Operations (OMO)	
Sterilisation	

SMIT SIR'S NOTE

Quantitative tools affect the general volume of money/credit. Qualitative tools direct or restrict credit toward specific purposes or sectors.

Quantitative Tool 1 - Bank Rate

Meaning: In the textbook, bank rate is the rate at which RBI lends to commercial banks for longer-term needs.

To control inflation: RBI raises the bank rate -> bank borrowing becomes more expensive -> banks lend less / at higher rates -> public borrowing and demand fall -> money/credit expansion slows.

To fight depression: The reverse logic applies - lower rate makes funds cheaper and encourages credit.

REMEMBER THIS

High Bank Rate = Dear Money. Low Bank Rate = Cheap Money.

TEXTBOOK DATA NOTE

The textbook includes historical bank-rate data and comments about the relative use of repo versus bank rate. Treat those as source-period material, not current policy guidance.

Quantitative Tool 2 - Repo Rate

Meaning: Repo is the rate connected with very short-term funds obtained by commercial banks from RBI against government securities under a repurchase arrangement.

KEY TERM - REPO RATE

Rate at which the central bank provides short-term liquidity to banks against eligible securities under a repurchase arrangement.

Inflation control: Higher repo -> borrowing from RBI becomes costlier -> banks reduce borrowing/lending -> money and demand pressures can fall.

Depression support: Lower repo -> borrowing becomes cheaper -> credit can expand.

Quantitative Tool 3 - Reverse Repo Rate

Textbook meaning: Reverse repo is the short-term rate associated with RBI absorbing/borrowing funds from commercial banks against securities.

Inflation control: A higher reverse repo encourages banks to park more funds with RBI instead of lending to the public, reducing market liquidity.

REMEMBER THIS

Repo: banks get funds from RBI. Reverse Repo: RBI absorbs funds from banks in the textbook framework.

Bank Rate vs Repo vs Reverse Repo

Basis	Bank Rate	Repo Rate	Reverse Repo Rate
Direction	RBI -> Banks	RBI -> Banks against repurchase arrangement	Banks -> RBI / liquidity absorption
Textbook Time Focus	Longer term	Very short term	Very short term
Inflation Action	Increase	Increase	Increase
Basic Effect	Credit becomes costlier	Short-term bank borrowing becomes costlier	Banks park more funds with RBI

Quantitative Tool 4 - Marginal Standing Facility (MSF)

MSF is presented in the textbook as a special emergency window through which commercial banks can borrow from RBI against approved government securities during acute cash shortage.

Key idea: It is an emergency / marginal liquidity facility and its rate is set above the repo rate in the textbook description.

TEXTBOOK DATA NOTE

The textbook cites a 2016 MSF rate as historical data. Do not treat that numerical rate as current.

Quantitative Tool 5 - Cash Reserve Ratio (CRR)

Meaning: CRR is the proportion of bank deposits that commercial banks must keep as cash reserve with RBI under the textbook framework.

Inflation: Higher CRR -> banks keep more with RBI -> less lendable money -> less credit creation -> money supply pressure falls.

Depression: Lower CRR -> banks can lend more -> credit and money supply can expand.

EXAM IMPORTANT

CRR is directly connected with the chapter's earlier topic of credit creation. A higher reserve ratio reduces the deposit/credit multiplier.

TEXTBOOK DATA NOTE

The textbook gives historical statutory ranges for CRR. Use them only if the exam asks the textbook fact.

Quantitative Tool 6 - Statutory Liquidity Ratio (SLR)

Meaning: SLR requires banks to maintain a prescribed proportion of deposits in liquid assets such as cash, gold or approved securities under the textbook framework.

High SLR: More bank funds are locked in liquid/approved assets -> less lending capacity -> slower credit expansion.

Low SLR: More funds are available for loans -> greater credit-creation capacity.

TEXTBOOK DATA NOTE

The textbook mentions a historical minimum SLR percentage. Treat it as prescribed-textbook data, not a current RBI rate.

Quantitative Tool 7 - Open Market Operations (OMO)

Meaning: OMO means RBI's purchase or sale of government securities in the open market.

RBI Action	Effect on Money Supply	Typical Purpose
Buys government securities	Money enters the market -> money supply rises	Support liquidity / counter depression
Sells government securities	Money is absorbed from market -> money supply falls	Reduce liquidity / control inflation

REMEMBER THIS

RBI Buys -> Money Increases. RBI Sells -> Money Decreases.

Quantitative Tool 8 - Sterilisation

Meaning: Sterilisation refers to RBI action designed to neutralise the domestic money-supply effect of large foreign-exchange inflows or outflows.

Textbook logic: Excess foreign-exchange inflow can increase domestic liquidity. RBI may sell government securities to absorb the extra money. With excessive outflow, the opposite operation may be used.

KEY TERM - STERILISATION

Offsetting monetary action used to neutralise liquidity effects created by foreign-exchange flows.

Selective / Qualitative Measures of Credit Control

These measures do not affect every sector uniformly. They are used to direct, restrict or encourage credit for selected purposes or groups.

1. Security Requirement

Banks may require borrowers to provide assets such as deposits, jewellery, vehicle, house or land as security. Requirements can differ across borrower groups and purposes.

Policy Logic: Tighter security conditions can restrict selected credit.

2. Margin Requirement

A borrower receives only a certain percentage of the value of the asset offered as security. The difference is the margin.

Policy Logic: Higher margin -> smaller loan against the same security.

3. Ceiling on Credit

RBI may prescribe maximum limits for credit for particular purposes.

Policy Logic: Lower ceiling restricts credit; higher ceiling permits more.

4. Discriminatory Interest Rate

Different categories/purposes may be charged different interest rates to influence the direction of credit.

Policy Logic: Priority groups may receive relatively favourable rates in the textbook example.

Monetary Policy - Inflation vs Depression

Instrument	To Control Inflation	To Counter Depression
Bank Rate	Increase	Decrease
Repo Rate	Increase	Decrease
Reverse Repo Rate	Increase / absorb liquidity	Decrease
CRR	Increase	Decrease
SLR	Increase	Decrease
OMO	Sell government securities	Buy government securities
Security Requirement	Tighten	Relax
Margin Requirement	Increase margin	Decrease margin
Credit Ceiling	Lower / restrict	Raise / relax
Interest Rate Policy	Relatively tighter / higher where needed	Relatively easier / lower where needed

EXAM IMPORTANT

Memory rule: Inflation -> Tight Money. Depression -> Easy Money.

Credit Creation and CRR - Important Connection

The chapter connects commercial-bank credit creation with RBI monetary control.

CRR	Bank Lendable Funds	Credit Creation Capacity	Money Supply Pressure
Higher	Lower	Lower	Falls / slows
Lower	Higher	Higher	Rises / expands

SMIT SIR'S NOTE

This relationship explains why CRR is a powerful quantitative tool.

How RBI Controls Inflation - One-Look Flow

Tight-Money Action	Transmission
Increase Repo / Bank Rate	Bank borrowing cost rises -> loans become costlier -> credit demand falls
Increase CRR / SLR	Banks have less money available for lending
Sell Government Securities	Market money is absorbed by RBI
Increase Reverse Repo	Banks are encouraged to park funds with RBI
Tighten Selective Credit	Credit to specific uses is restricted

How RBI Supports an Economy in Depression - One-Look Flow

Easy-Money Action	Transmission
Decrease Repo / Bank Rate	Bank funding becomes cheaper -> lending can expand
Decrease CRR / SLR	More bank funds become available for loans
Buy Government Securities	Money enters the market
Relax Selective Credit	More credit becomes available to selected uses

Common Mistakes Students Make

COMMON MISTAKE

Wrong idea: Commercial bank and central bank are the same.
Correct idea: Commercial banks serve customers and conduct banking business; the central bank regulates the system.

COMMON MISTAKE

Wrong idea: Recurring deposit is the same as current account.
Correct idea: Recurring deposits build savings regularly; current accounts focus on frequent transactions.

COMMON MISTAKE

Wrong idea: Credit creation means a bank prints currency notes.
Correct idea: Banks create deposit credit through lending; currency issue is a central-bank function.

COMMON MISTAKE

Wrong idea: Rs. 1,000 with 20% reserve creates Rs. 5,000 of new credit.
Correct idea: The textbook multiplier gives Rs. 5,000 total deposit expansion; additional credit is Rs. 4,000.

COMMON MISTAKE

Wrong idea: Repo and reverse repo move money in the same direction.
Correct idea: Repo supplies short-term funds to banks; reverse repo absorbs funds from banks in the textbook framing.

COMMON MISTAKE

Wrong idea: CRR and SLR are identical.
Correct idea: CRR is cash reserve with RBI; SLR is a liquidity requirement in specified assets.

COMMON MISTAKE

Wrong idea: RBI buying securities reduces money supply.
Correct idea: Buying securities injects money; selling securities absorbs money.

COMMON MISTAKE

Wrong idea: Qualitative tools affect the whole economy equally.
Correct idea: They are selective tools aimed at specific credit uses/sectors.

How to Write Major Answers in the Exam

Q1. Explain the Meaning and Functions of a Commercial Bank

Best structure: Meaning -> Primary Functions (5) -> Secondary Functions (2).

Q2. Explain Credit Creation

Best structure: Meaning -> primary/derived deposits -> reserve logic -> formula -> textbook example.

Q3. Difference between Commercial Bank and Central Bank

Best structure: Use a table with purpose, public deposits, loans, currency, regulation, policy and number.

Q4. Explain Functions of RBI

Best structure: Monetary Functions (5) -> Non-Monetary Functions (3).

Q5. Explain Quantitative Measures of Monetary Policy

Best structure: Bank Rate -> Repo/Reverse Repo -> MSF -> CRR -> SLR -> OMO -> Sterilisation.

Q6. Explain Qualitative Measures

Best structure: Security -> Margin -> Ceiling -> Discriminatory Rate.

Practice Set A - MCQs

1. The two major bank categories in the chapter are:
- A. Commercial and Central
- B. Rural and Urban only
- C. Savings and Current
- D. Private and Public only

2. Commercial banks mainly accept:
- A. Deposits
- B. Taxes only
- C. Currency notes for printing
- D. Monetary policy

3. Which account is most suitable for frequent business transactions?
- A. Current Account
- B. Fixed Deposit
- C. Recurring Deposit
- D. None

4. Which deposit involves regular monthly saving?
- A. Recurring Deposit
- B. Current Account
- C. Call Money
- D. OMO

5. The textbook classifies short-term credit as:
- A. Up to 1 year
- B. 5-15 years
- C. Above 15 years
- D. Exactly 10 years

6. Credit creation depends directly on:
- A. Reserve ratio
- B. Brand name
- C. Packaging
- D. Advertisement

7. The apex bank of India is:

- A. RBI
- B. SBI
- C. HDFC
- D. ICICI

8. RBI began operations on:

- A. 1 April 1935
- B. 1 Jan 1949
- C. 15 Aug 1947
- D. 1 April 1991

9. RBI was nationalised on:

- A. 1 January 1949
- B. 1 April 1935
- C. 26 January 1950
- D. 1 July 1991

10. Which is a monetary function of RBI?

- A. Credit Control
- B. Packaging
- C. Recruitment
- D. Advertising

11. Which is a non-monetary function of RBI?

- A. Promotional Function
- B. Currency Issue only
- C. Note printing by commercial bank
- D. Deposit creation

12. Monetary policy mainly regulates:

- A. Money and credit
- B. Packaging
- C. Consumer labelling
- D. Production technology only

13. Which is a quantitative tool?

- A. CRR
- B. Branding
- C. Consumer right
- D. Promotion

14. Which is a qualitative tool?

- A. Margin Requirement
- B. SLR
- C. OMO
- D. Repo

15. RBI purchase of government securities generally:

- A. Increases money supply
- B. Decreases money supply
- C. Ends banking
- D. Creates barter

Practice Set B - Conceptual MCQs

16. A business wants unlimited frequent transactions and overdraft facility. Which account?

- A. Current Account
- B. Recurring Deposit
- C. Fixed Deposit
- D. Savings only

17. A saver deposits Rs. 1,000 and reserve ratio is 20%. Total deposit expansion under the textbook multiplier is:

- A. Rs. 5,000
- B. Rs. 4,000
- C. Rs. 1,200
- D. Rs. 800

18. In the same example, additional credit created is:

- A. Rs. 4,000
- B. Rs. 5,000
- C. Rs. 1,000
- D. Rs. 200

19. RBI raises repo rate during inflation. Main immediate logic?

- A. Bank borrowing becomes costlier
- B. Banks lend more cheaply
- C. CRR becomes zero
- D. OMO stops

20. RBI raises CRR. What happens to lending capacity?

- A. Falls
- B. Rises
- C. Unchanged necessarily
- D. Doubles

21. RBI sells government securities. What happens to market liquidity?

- A. Falls
- B. Rises
- C. Becomes barter
- D. No relation

22. RBI buys government securities during depression. Main effect?

- A. Injects money
- B. Absorbs all money
- C. Stops banking
- D. Raises CRR automatically

23. RBI increases margin requirement against a security. Loan available against same asset will generally:

- A. Fall
- B. Rise
- C. Stay exactly same by definition
- D. Become deposit

24. A bank needs emergency liquidity against approved securities. Which textbook facility?

- A. MSF
- B. PQLI
- C. HDI
- D. OCM

25. Large forex inflow is neutralised by RBI selling securities. This is:

- A. Sterilisation
- B. Barter
- C. Branding
- D. Recruitment

MCQ Answer Key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	2	A	3	A	4	A	5	A
6	A	7	A	8	A	9	A	10	A
11	A	12	A	13	A	14	A	15	A
16	A	17	A	18	A	19	A	20	A
21	A	22	A	23	A	24	A	25	A

Board-Style One-Line Questions

- Give the meaning of a bank.
- Give the meaning of a commercial bank.
- Give the meaning of a central bank.
- What is a scheduled bank?
- What is a primary deposit?
- What is a derived / secondary deposit?
- What is call money?
- What is monetary policy?
- What is bank rate?
- What is repo rate?
- What is reverse repo rate?
- What is CRR?
- What is SLR?
- What is OMO?
- What is sterilisation?

Board-Style Short / Brief Questions

- Explain any three types of deposits.
- Explain payment and withdrawal facilities of commercial banks.
- Explain credit creation in brief.
- Give an idea of accounts of a commercial bank.
- Write a note on qualitative tools of monetary policy.
- Explain any four functions of RBI.
- Distinguish current and fixed deposits.
- Explain repo and reverse repo rates.
- Explain CRR and SLR.
- Explain OMO and sterilisation.

Board-Style Detailed Questions

- Explain the meaning and functions of commercial banks.
- List and explain the primary and secondary functions of commercial banks.
- Explain credit creation with formula and example.
- Distinguish commercial bank and central bank.
- Explain the functions of the Reserve Bank of India.
- Explain quantitative measures of monetary policy in detail.
- Explain qualitative / selective measures of monetary policy.
- Explain how monetary-policy tools are used to control inflation and depression.

Application / Case-Based Practice

Case 1

A firm wants an account with frequent withdrawals and possible overdraft.

Answer: Current Account.

Case 2

A worker wants to deposit a small fixed amount every month for three years.

Answer: Recurring Deposit.

Case 3

A bank lends part of a customer's deposit, and the loan is redeposited in another bank.

Answer: This illustrates credit creation / derived deposits.

Case 4

Commercial banks face an emergency cash shortage and need overnight support from the central bank.

Answer: Use the textbook emergency liquidity / MSF concept.

Case 5

Inflation is high, so RBI raises CRR.

Answer: Banks have less lendable money; credit creation slows.

Case 6

Inflation is high, so RBI sells government securities.

Answer: Money is absorbed from the market; liquidity falls.

Case 7

The economy is depressed, so RBI buys government securities.

Answer: Money is injected; liquidity and credit can expand.

Case 8

RBI requires a larger down-payment margin against a security.

Answer: This is the qualitative tool called margin requirement.

Chapter Glossary

Term	Simple Meaning
Bank	Institution accepting deposits and providing loans/financial services.
Commercial Bank	Banking business accepting public deposits for lending/investment.
Central Bank	Apex monetary and banking authority.
Current Account	Highly liquid transaction account, common for business.
Savings Account	Deposit account designed for personal savings.
Recurring Deposit	Regular periodic saving deposit.
Fixed Deposit	Deposit kept for a fixed period.
Credit Creation	Expansion of bank deposits/loans from primary deposits.
Primary Deposit	Initial public deposit with a bank.
Derived Deposit	Deposit created from lending activity.
Call Money	Very short-term inter-bank funds.
Scheduled Bank	Bank listed in the Second Schedule of the RBI Act, 1934, per textbook.
Monetary Policy	Central-bank policy regulating money and credit.
Repo Rate	Short-term RBI-to-bank liquidity rate under repurchase arrangement.
Reverse Repo	Rate linked with RBI absorbing short-term funds from banks.
CRR	Cash reserve proportion kept with RBI.
SLR	Required liquid-asset proportion in the textbook framework.
OMO	RBI purchase/sale of government securities.
Sterilisation	Offsetting liquidity effect of forex flows.
Margin Requirement	Difference between value of security and permitted loan amount.

5-Minute Chapter Revision

Banks: Accept deposits, lend, transfer money and mobilise savings.

Commercial Bank: Deposit + Credit + Payments + Credit Creation + Inter-bank + Services.

Deposits: Current, Savings, Recurring, Fixed.

Credit Creation: Total Deposit Expansion = Primary Deposit x 1/Reserve Ratio.

RBI: Apex bank; monetary functions 5, non-monetary functions 3.

Monetary Policy: Regulates money/credit for stability.

Quantitative: Bank Rate, Repo, Reverse Repo, MSF, CRR, SLR, OMO, Sterilisation.

Qualitative: Security, Margin, Credit Ceiling, Discriminatory Rate.

Inflation: Tight money. Depression: Easy money.

EXAM IMPORTANT

Ultra-short memory: Commercial banks create credit; RBI controls credit.

One-Page Master Revision Sheet

Topic	Must Remember
Types of Banks	Commercial + Central
Primary Commercial-Bank Functions	5
Secondary Functions	2
Deposit Types	Current, Savings, Recurring, Fixed
Credit Formula	Primary Deposit x 1/CRR
Scheduled Banks	Second Schedule of RBI Act
RBI Established	1 April 1935
RBI Nationalised	1 January 1949
RBI Monetary Functions	5
RBI Non-Monetary Functions	3
Quantitative Tools	8 incl. MSF and Sterilisation
Qualitative Tools	4
OMO Buy	Money supply rises
OMO Sell	Money supply falls

Have You Mastered This Chapter?

- [ ] I can explain all deposit types.
- [ ] I can explain all commercial-bank functions.
- [ ] I can solve the credit-creation example.
- [ ] I can distinguish commercial and central bank.
- [ ] I can explain all RBI functions.
- [ ] I can define monetary policy.
- [ ] I can explain every quantitative tool.
- [ ] I can explain all four qualitative tools.
- [ ] I know what RBI does in inflation vs depression.

CHAPTER 4 COMPLETE

Banking and Monetary Policy

SMIT SIR'S FINAL MESSAGE

The entire chapter becomes easy when you see the flow: people save in commercial banks, banks lend and create credit, RBI supervises the system, and monetary policy changes the cost and availability of money to maintain stability.

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