

**Notes**

- There are four measures of money supply viz. M_1 , M_2 , M_3 and M_4 of which M_1 is a narrow measure of money supply and M_3 is broader measure of money supply.
- The High Powered Money is the currency held by public (C), cash reserves of banks (R) and other deposits of the R.B.I.
- Commercial bank is a financial institution which is primarily concerned with accepting deposits from public and lending to the public.
- Functions of Commercial Banks mainly include acceptance of deposits, extending loans and advances, creation of credit and sale and purchase of foreign exchange:
- Higher LRR reduces commercial bank's power to create credit and vice-versa.
- Total quantity of money created: Quantity of deposits \times $1/\text{LRR}$.
- Central Bank is an apex bank in an economy which is entrusted with the task to control, regulate and supervise the entire banking operations of all the commercial banks.
- Important functions of central bank include credit control, issue of currency, banker to the bank, custodian of the cash reserves of the commercial banks, lender of the last resort.
- Central bank also acts as central clearing house for the commercial banks, banker to the government, custodian of the stock of gold and foreign exchange reserves of the nation, controller of credit and money supply.
- Central bank broadly uses two categories of instruments of credit control viz. quantitative methods and qualitative or selective methods of credit control.
- Quantitative methods include bank Rate Policy, open Market Operations and variable legal reserve ratio.
- Qualitative or selective credit control includes margin requirements, moral suasion and credit rationing.

**TERMINAL EXERCISE**

1. What is barter system of exchange?
2. What were the difficulties of barter system of exchange?
3. Define Money.
4. How money could solve difficulties related to barter system?
5. Explain different measures of money supply.
6. What is a commercial bank?
7. Explain important functions of commercial banks.
8. What are different types of deposits accepted by commercial banks?

MODULE - 11

Money, Banking and
Government Budget



Notes

Money and Banking

9. What is credit creation?
10. Briefly explain the process of money creation or credit creation.
11. What is high powered money?
12. What is central bank?
13. What are the important functions of central bank?
14. Distinguish between quantitative and qualitative methods of credit control.



ANSWERS TO INTEXT QUESTIONS

28.1

- (i) False (ii) True
(iii) Quality of rice may be lower/loss of interest.

28.2

- (i) True (ii) True (iii) False (iv) True (v) True

28.3

- (i) False (ii) True (iii) True (iv) True (v) True

28.4

- (i) True (ii) False (iii) True (iv) True (v) True
(vi) True (vii) True (viii) False (ix) True (x) True