



# CA FUNSTA

One Stop Solution For Current Affairs

2021 EDITION

For SBI & IBPS Bank Clerk  
Po / RRB / RBI Exams



# BANKING AWARENESS



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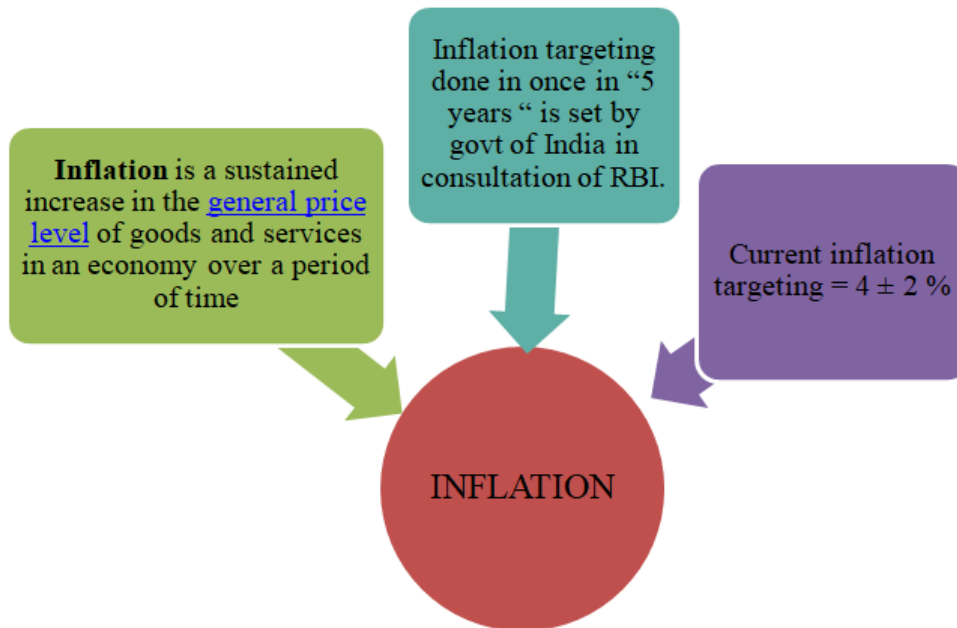
- List of Mergers in the Indian Banking Industry

## 17) ABBREVIATIONS

## RBI'S MONETARY POLICY



## INFLATION





## EXAMPLE OF INFLATION



## TYPES OF INFLATION

### 1. Demand pull inflation

- This occurs when the economy grows quickly and starts to 'overheat'—Aggregate demand will be increasing faster than aggregate supply.

### 2. Cost push inflation

- This occurs when there is a rise in the price of raw materials, higher taxes, etc.

#### a) Bottleneck inflation

- It happens when the supply falls drastically, but the demand remains the same.

#### b) Core inflation

- Inflation excluding food and fuel.

#### c) Headline inflation

- A measure of total inflation in economy.
- Core inflation + food & fuel.





#### d) Inflationary gap

- It is basically a fiscal deficit. Additional expenses are intended to increase production level but ultimately pushes the price due to additional creation of money during the process.

#### e) Inflation index

- When government prints currency due to inflation, it is called as inflation index.

#### f) Inflation spiral

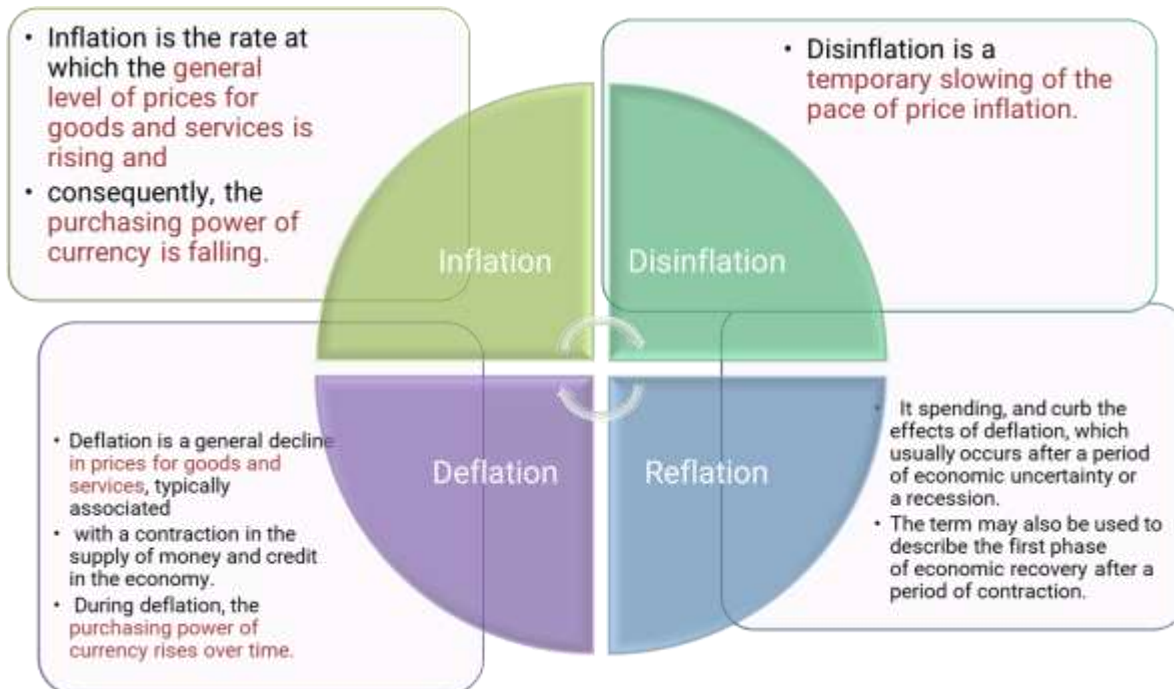
- It is spiral when higher inflation increases the wages and higher wages increases inflation and it goes on.

#### g) Inflation premium

- It is a bonus brought to borrows buy inflation.

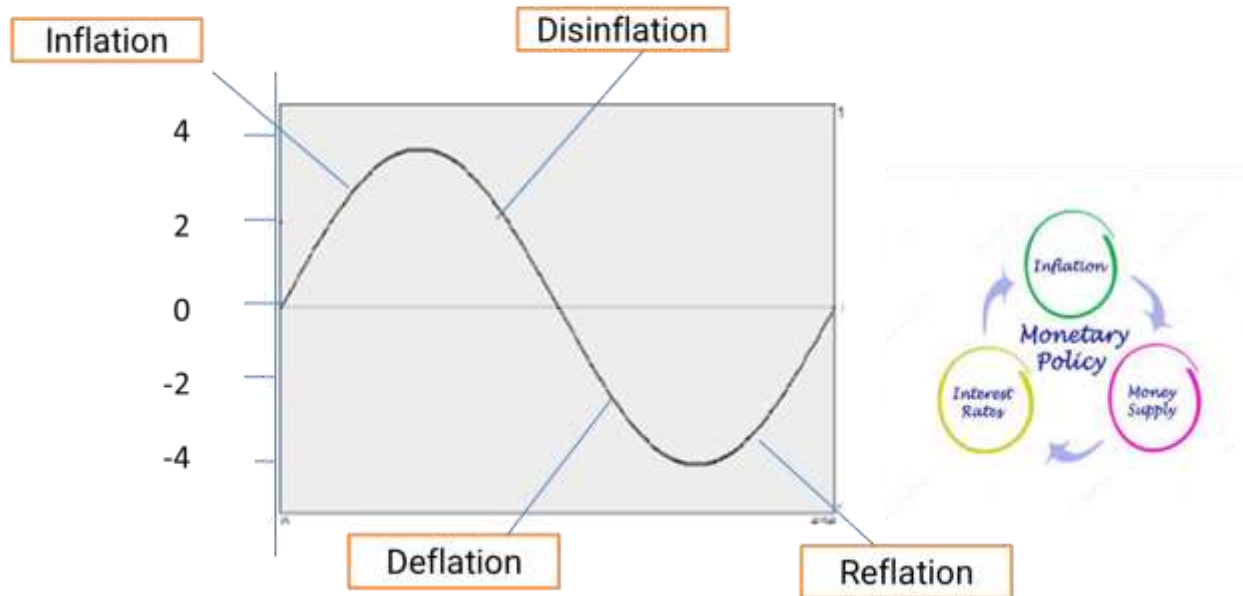
#### h) Stagflation

- When inflation and unemployment both are high levels.



## EXAMPLE OF MONEY FLOW

### EXAMPLE OF MONEY FLOW



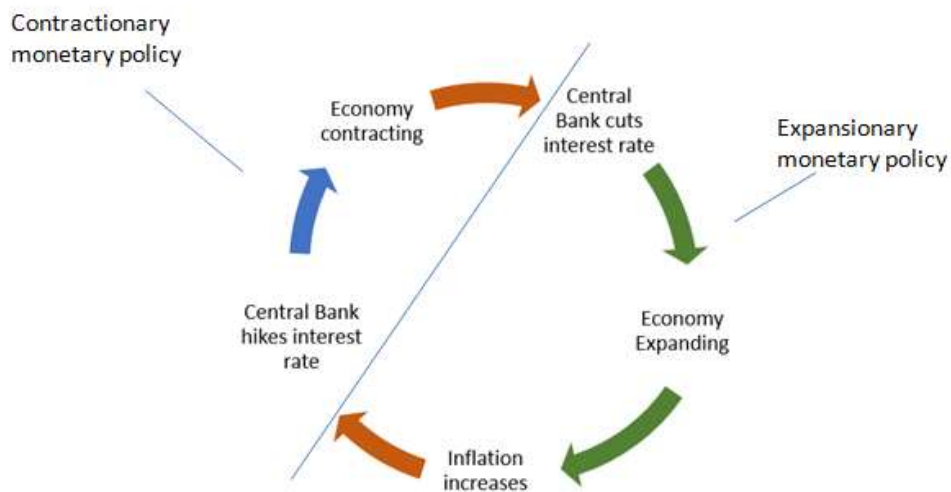
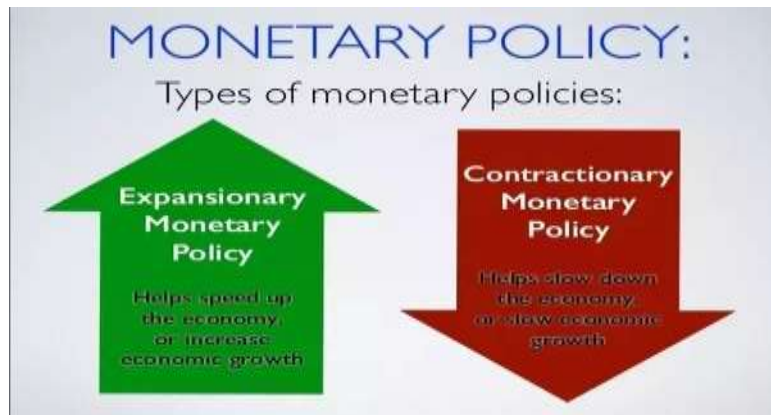
## TYPES OF MONETARY POLICY

### 1) Expansionary Monetary Policy

- An expansionary monetary policy is required when an economy goes through a phase of recession accompanied by lower levels of growth/high levels of unemployment.

### 2) Contractionary Monetary Policy

- Contractionary monetary is used to tackle the menace of inflation in the economy by raising the interest rates.



## OBJECTIVES

- Control and reduce the “Inflationary” pressure on the economy.
- Managing a nation’s money supply to contain/control the inflation, achieving higher growth rates and achieving full employment.



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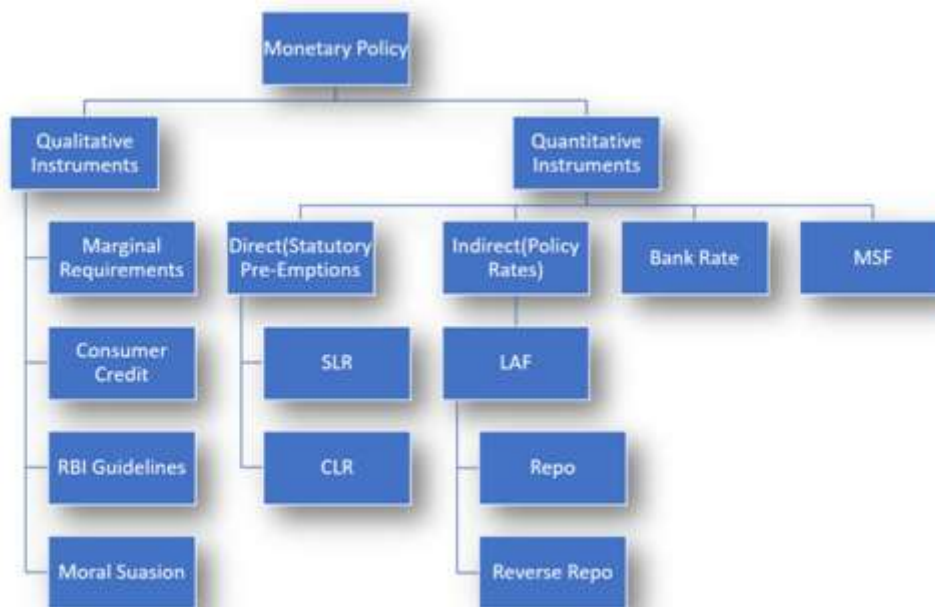
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## MONETARY POLICY COMMITTEE

- The Monetary Policy Committee (MPC) is a six-member committee of the Central Bank in India (Reserve Bank of India), headed by its Governor, Section 45ZB of RBI Act 1934.
- Which is entrusted with the task of fixing the benchmark policy interest rate (repo rate) to contain inflation within the specified target level.
- All the important committees of namely the Y. V. Reddy Committee (2002), Tarapore Committee (in 2006), Percy Mistry Committee (2007), Raghuram Rajan Committee (2009), Dr. Urjit R. Patel (URP) Committee (2013).

## MONETARY POLICY TOOLS




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## QUALITATIVE INSTRUMENTS

### i. Marginal requirement

- Commercial banks give loan against 'stocks or securities. While giving loans against stocks or securities they keep margin. Margin is the difference between the market value of a security and its maximum loan value.
- Let us assume, a commercial bank grants a loan of Rs. 8000 against a security worth Rs. 10,000. Here, margin is Rs. 2000 or 20%.

### ii. Consumer credit

- Most of the consumer durables like Cars, Televisions, and Laptops, etc. are available on instalment basis financed through bank credit.
- Such credit made available by commercial banks for the purchase of consumer durables is known as consumer credit.
- Reserve Bank seeks to limit the maximum amount of loans and advances, and also in certain cases fix ceiling for specific categories of loans and advances.
- RBI also makes credit flow to certain priority or weaker sectors by charging concessional rates of interest. This is at times also referred to as Priority Sector Lending.

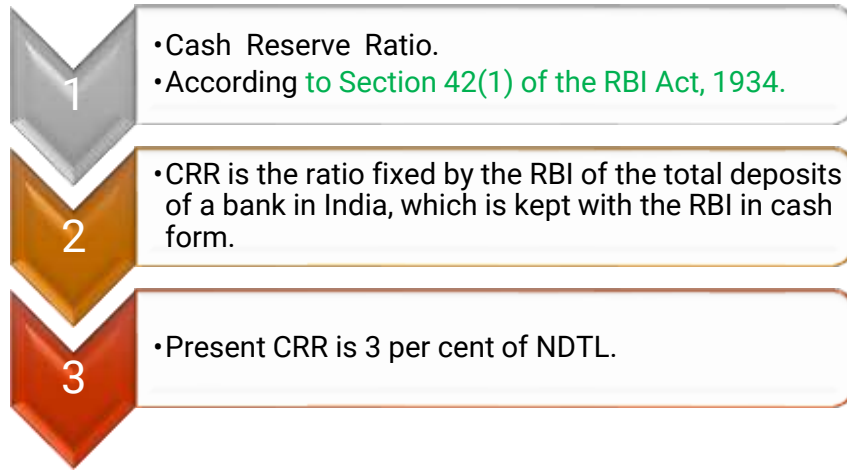
### iii. Moral suasion

- Under Moral Suasion, RBI issues periodical letters to bank to exercise control over credit in general or advances against particular commodities.
- Periodic discussions are held with authorities of commercial banks in this respect.





## QUANTITATIVE INSTRUMENT CRR



## EXAMPLE



## SLR

- Statutory Liquidity Ratio.
- As per **Section 24** of the Banking Regulations Act, **1949**.
- The Statutory Liquidity Ratio refers to that proportion of total deposits which the commercial banks are required to keep with themselves in a liquid form cash, gold, govt securities, sovereign gold bond.
- Present SLR is **18 per cent** of NDTL.

## DIFFERENCE BETWEEN CRR & SLR

<b>CRR</b>	<b>SLR</b>
CRR is the fixed amount that banks have to keep with RBI.	SLR Banks have a ratio of deposits that they have to keep with themselves.
CRR is maintained only in cash form.	SLR can be maintained as gold, cash and other securities approved by RBI.
CRR is used to control inflation.	SLR is used to meet the sudden demand of depositors.
CRR regulates liquidity.	SLR controls credit facility.
No interest is earned by banks on CRR.	Banks can earn interest on SLR.
CRR limit from 15% to 3%	SLR limit from 40% to 0 %

## REPO RATE

- **Repo rate** is the **rate** at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds.
- It is a short-term loan and also called as **repurchase rate**.
- If the RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate.
- Similarly, if RBI wants to make it cheaper for banks to borrow money, it reduces the repo rate.
- Current **repo rate 4 percent**.



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## PROCESS



## REVERSE REPO RATE

- 1 • It is the rate at which RBI borrows money from commercial banks.
- 2 • Repo rates and reverse repo rates form a part of the liquid adjustment facility.
- 3 • Current reverse repo rate is 3.35 percent.

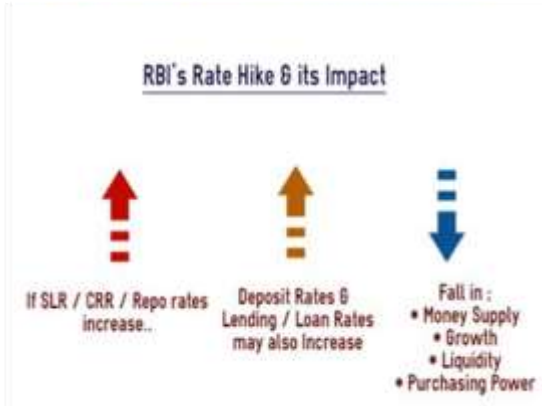


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## REPO RATE IS INVERSELY PROPORTIONAL TO INFLATION RATE.

### • INFLATION RATE DECREASES



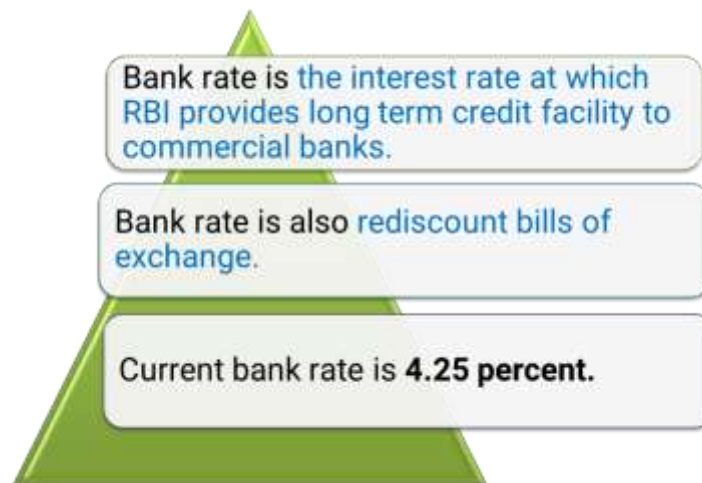
### INFLATION RATE INCREASES

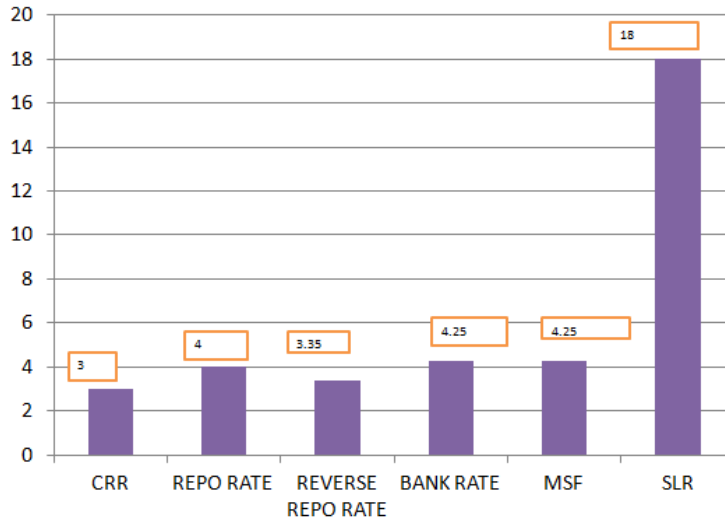


## MARGINAL STANDING FACILITY

- The MSF was introduced by the RBI in its monetary policy for **2011-12**.
- The rate at which the scheduled banks can borrow funds from the RBI overnight, against the approved government securities is termed as MSF.
- Current MSF rate is **4.25 percent**.

## BANK RATE





## OPEN MARKET OPERATIONS (OMOs)

- **OMOs:** It refers to buying and selling of government securities in open market in order to expand or contract the amount of money in the banking system.

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**MULTIPLE CHOICE QUESTIONS**

**1) What indicates buying and selling of government securities by RBI?**

- a) OMO
- b) LAF
- c) SLR
- d) CRR
- e) None of these

**ANSWER: A) OPEN MARKET OPERATIONS**

**2) Increase in CRR?**

- a) Increase in bank credit
- b) Decreases in bank credit
- c) Excess in bank credit
- d) Constant in bank credit
- e) None of these

**ANSWER: B) DECREASES IN BANK CREDIT**

**3) Monetary policy committee is headed by, whom?**

- a) GOI
- b) Finance minister
- c) Economic affairs
- d) RBI governor
- e) None of these

**ANSWER: D) RBI GOVERNOR**

**4) Which tools is/are coming under liquidity adjustment facility (LAF)?**

- a) Repo rate
- b) Reverse repo rate
- c) Both a and b
- d) CRR
- e) None of these

**ANSWER: c) Repo rate and reverse repo rate**



**5) CRR comes under which section in RBI Act, 1934?**

- a) Section 42(2)
- b) Section 41(1)
- c) Section 42(1)
- d) Section 41(2)
- e) None of these

**ANSWER: C) SECTION 42(1)**

**6) NDTL Expand?**

- a) Net Demand and Time Liabilities
- b) Network Demand and Time Liabilities
- c) Net Demand and Team Liabilities
- d) Net Demat and Team Liabilities
- e) None of these

**ANSWER: A) NET DEMAND AND TIME LIABILITIES**

**7) If repo rate increases mean inflation rate?**

- a) Increases
- b) Decreases
- c) Constant
- d) Excess
- e) None of these

**Answer: b) Inflation rate decreases**

**8) Which one of the following is not a quantitative instrument in MPT?**

- a) CRR
- b) SLR
- c) Moral suasion
- d) Repo rate
- e) None of these

**ANSWER: C) MORAL SUASION**





**9) Which quantitative instrument is called as absorption of liquidity?**

- a) Repo rate
- b) Reverse repo rate
- c) CRR
- d) Bank rate
- e) MSF

**ANSWER: B) REVERSE REPO RATE**

**10) Which quantitative instrument is called as injection of liquidity?**

- a) Repo rate
- b) Reverse repo rate
- c) CRR
- d) Bank rate
- e) MSF

**ANSWER: A) REPO RATE**

**11) CRR Range between 3 and what per cent?**

- a) 10
- b) 12
- c) 13
- d) 14
- e) 15

**ANSWER: E) 15**

**12) SLR Range between 0% to how many percent?**

- a) 22
- b) 18
- c) 19.5
- d) 35
- e) 40

**ANSWER: E) 40**





**13) When inflation and unemployment both are high levels is called?**

- a) Deflation
- b) Core inflation
- c) Disinflation
- d) Stagflation
- e) None of these

**ANSWER: D) STAGFLATION**

**14) When an economy goes through a phase of recession accompanied by lower levels of growth/high levels of unemployment is what kind of monetary policy?**

- a) Expansionary monetary policy
- b) Contradiction monetary policy
- c) Neutral monetary policy
- d) Both a and b
- e) None of these

**Answer: a) Expansionary monetary Policy**

**15) Inflation excluding food and fuel is what types of inflation?**

- a) Deflation
- b) Core inflation
- c) Disinflation
- d) Stagflation
- e) None of these

**ANSWER: B) CORE INFLATION**

**16) What is called a general decline in prices for goods and services, typically associated with a contraction in the supply of money and credit in the economy?**

- a) Deflation
- b) Core inflation
- c) Disinflation
- d) Stagflation
- e) None of these

**ANSWER: A) DEFLATION**



**17) CRR is maintained only in a form of which type of reserve?**

- a) Gold
- b) Securities
- c) Cash
- d) Bond
- e) All of these

**ANSWER: C) CASH**

**18) If any interest is earned by banks on CRR?**

- a) Yes
- b) No

**ANSWER: B) NO**

**19) The rate at which the scheduled banks can borrow funds from the RBI overnight, against the approved government securities is termed as?**

- a) CRR
- b) SLR
- c) MSF
- d) Repo rate
- e) Reverse Repo rate

**ANSWER: C) MSF**

**20) Which monetary policy tool is the interest rate at which RBI provides long term credit facility to commercial banks?**

- a) Repo rate
- b) Reverse repo rate
- c) CRR
- d) SLR
- e) Bank Rate

**ANSWER: E) BANK RATE**



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