DR.MADHUKARRAO WASNIK PWS ARTS AND COMMERCE COLLEGE

B.COM 2ND YEAR IIIrd SEMESTER

SUBJECT:- MONETARY ECONOMICS -1

MEDIUM :- ENGLISH,HINDI,MARATHI

Subject Teacher :-

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Monetary Policy :-

The monetary policy is a policy formulated by the central bank, i.e., RBI (Reserve Bank of India) and relates to the monetary matters of the country. The policy involves measures taken to regulate the supply of money, availability, and cost of credit in the economy.

Definition of Monetary Policy:-

According to Prof. Harry Johnson :-

" A policy employing the central of the supply of money as an instrument for achieving the objectives of general economic policy is a monetary policy."

Objectives of Monetary Policy:-

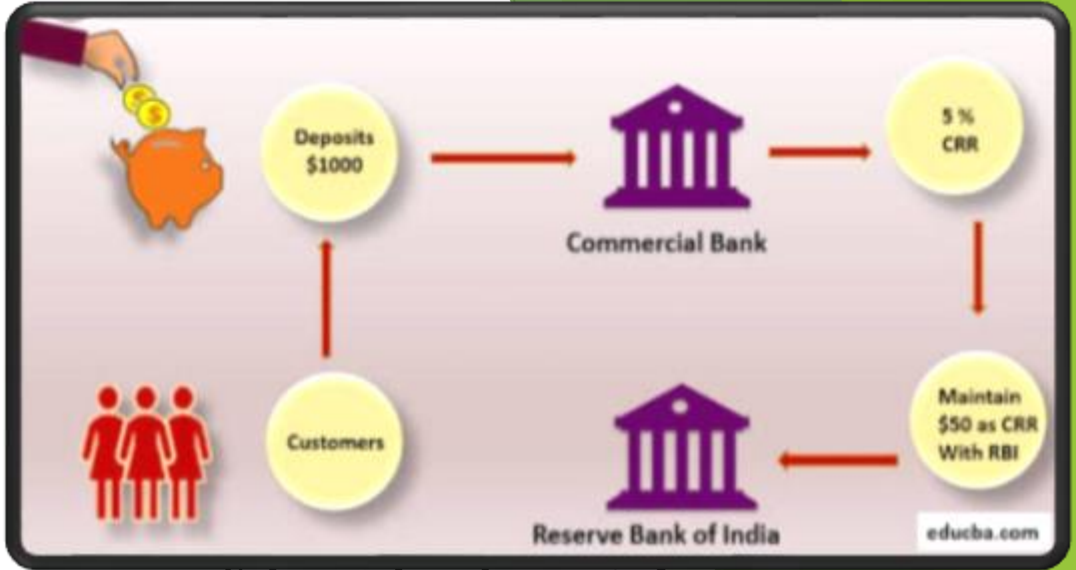
- Price Stability
- Rapid Economic Growth
- Controlled Expansion of Credit
- Exchange Rate Stability
- Balance of Payments (BOP) Equilibrium
- Equal Income Distribution
- Neutrality of Money
- Full Employment

Instruments of Monetary Policy:-

Bank Rate :-

- Section 49 of RBI Act, 1934 defines the bank rate as "the standard rate at which the Reserve Bank is prepared to buy or the rediscount Bill's of exchange or other commercial papers eligible for purchase under the Act."
- The bank rate also known as the discount rate, is the rate of interest charged by the RBI for providing funds or loans to the banking system.

Cash Reserve Ratio :-

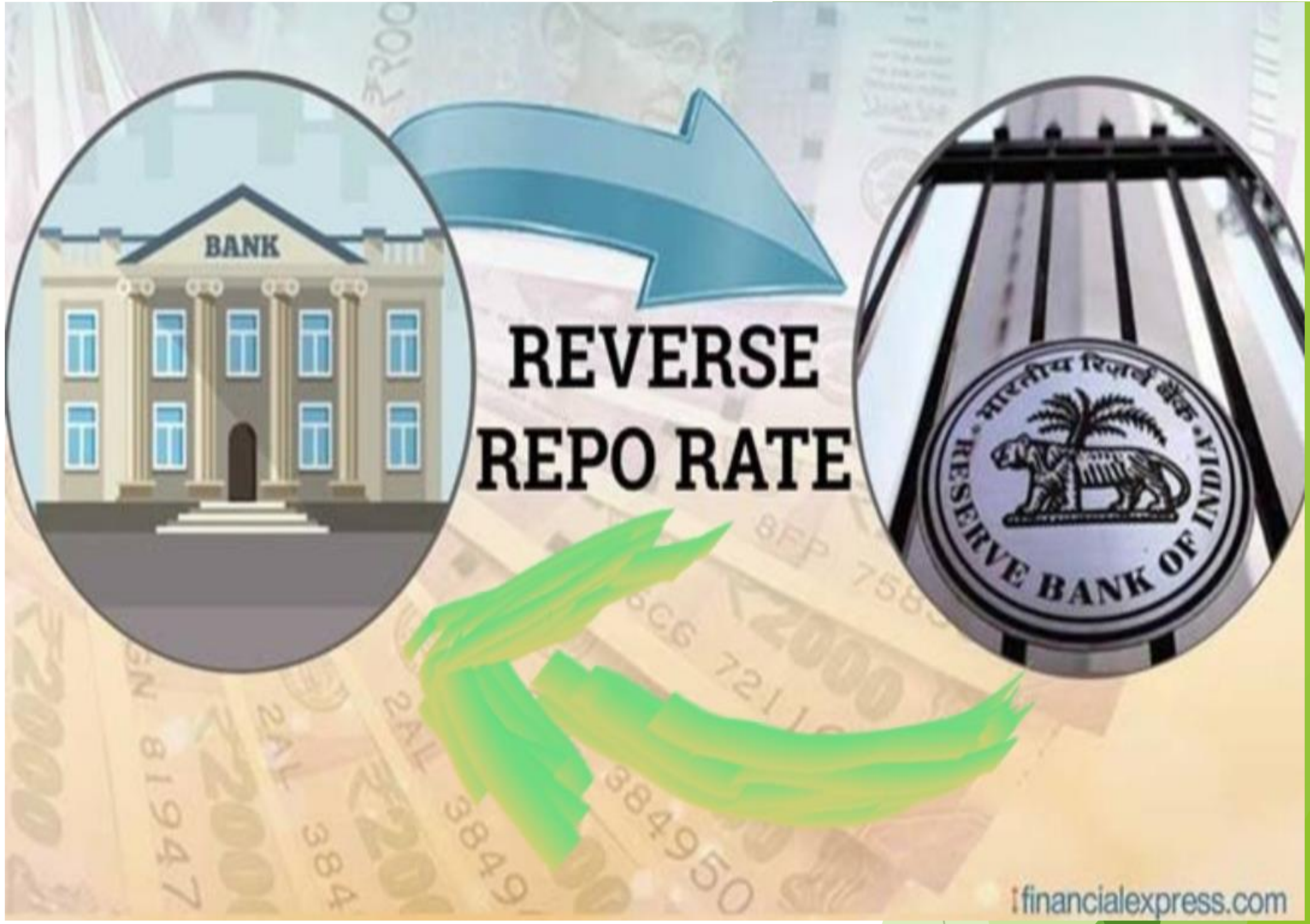


- Cash Reserve Ratio is a certain percentage of bank deposits which banks are required to keep with RBI in the form of reserves or balances.
- The higher the CRR with the RBI, the lower will be the liquidity in the system, and vice versa.
- The objective of maintaining the cash reserve is to prevent the shortage of funds in meeting the demand by the depositor.

Statutory Liquidity Ratio :-

- Statutory Liquidity Ratio or SLR is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.
- The SLR was prescribed by Section 24 (2A) of Banking Regulation Act, 1949.
- Increasing the SLR will control inflation in the economy while decreasing the statutory liquidity rate will cause growth in the economy.

Repo Rate
and
Reverse Reppo rate :-



- Repo Rate is the rate at which RBI lends to commercial banks generally against government securities.
- Reverse Repo Rate is the rate at which RBI borrows money from the commercial banks.

Open Market operations:-

- Open Market Operations is the sale and purchase of government securities by RBI or Central bank of the Country.
- RBI Carries out OMO through commercial banks does not directly deal with the public.

- *Thank You* 😊👍