Chapter No → 16.
{Monetary Policy}

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Q.No1. Define monetary policies and its objectives.

Ans → Monetary policy refers to those policy which measures and Control the Credit and money supply in india. monetary policy adopted and Controlled by reserve bank of india (R.B.I).

According to proffessor Paul, an ideal monetary policy defined as "the efforts reduce to a minimum the disadvantages and Increases the advanges resulting from the existence and opration of a monetary System."

In india R.B.I. adopted Selective equalitative and quantative measures to Control the Credit. these are classify as follows :-

CRR + SLR = LRR

a) Quantative
- Bank Rate
- C.R.R.
- S.L.R.
- Open market operation

b) Qualitative
- Margine Requirment rate
- Moral Suasion

i) Bank rate refers the rate at which Central Bank lending money to Commercial Bank it is also known as "Repo-rate". Bank rate directly Control Credit in Economy.

- If Bank rate increases ↑, Interest rate ↑, Cost of debt ↑, So Credit Creation ↓.

- If Bank rate decreases ↓, Interest rate ↓, Cost of debt ↓, So Credit Creation ↑.

2). C.R.R. (Cash reserve ratio) → It refers to a percentage (%) which every Commercial Bank will have to kept some reserve of their total deposits with R.B.I.

As CRR ↑, it decreases Availibility of funds with Commercial Banks, So Credit ↓ reduces.

3). S.L.R. (Statutory Liquidity Ratio) :- It refers to a rate which every Commercial bank will have to kept himself of total deposit in liquid form.
If S.L.R ↑ it decrease the Credit Creation in the market.

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→ A). Open Market Operation :- It refers to buying and selling of government securities by the R.B.I. in order to increase credit or money supply in the Economy R.B.I. starts buying of securities so that flow of money increase to general people on other hand to reduce the flow they starts selling.

b).

→ i) Margine requirement rate :- It refers to the gap between assets offered by customer to bank and loan granting by Bank. if margin requirement rate increases than credit in the economy decreases on other hand a fall in margine requirement rate increases the money supply.

ii) Moral Suasion :- R.B.I. also control the credit by moral suasion on commercial bank,

Objective of Monetary Policy :-

1). Stability of exchange rate.
2). Economy growth.
3). To Achieve full employment.
4). Price Stability.
5). Public welfare.
6). Control on Credit and money Supply.

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