

Q no 1. 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).

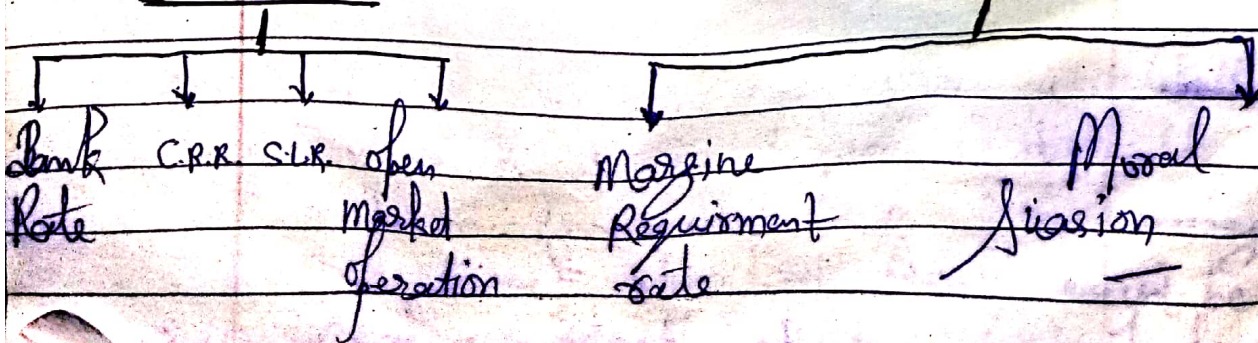
According to professor paul, an ideal monetary policy defined as "the efforts reduce to a minimum the disadvantages and increase the advantages resulting from the existence and operation of a monetary system."

In india R.B.I. adopted selective equalitative and quantitative measures to control the credit. these are classify as follows :-

$CRR + SLR = LRR$

a) Quantitative

b) Qualitative



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 \uparrow , Interest rate \uparrow , Cost of debt \uparrow , So Credit Creation \downarrow .

• If Bank rate decreases \downarrow , Interest rate \downarrow , Cost of debt \downarrow , So Credit Creation \uparrow .

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

As C.R.R. \uparrow , it decreases Availability of funds with Commercial Banks, so Credit \downarrow reduces.

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

→ 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 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 then 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.