Meta data of E- Content (Pre production)

S. N.	AREA OF MATA DATA	TO BE FILLED BY CONTENT GENERATOR(S)
1	Topic	Money And Banking
2	Subject	Macroeconomics
3	Topic connected which area of subject?	Central Bank
4	Class/ Level	XII
5	Objectives	To enable the child to: 1. Understand the functions of central bank 2. Know about the quantitative instruments used by central bank 3. Understand the working of the quantitative instruments like Bank rate, OMOs etc. 4. Comprehend what will be the course of action of central bank in times of excess/ deficit demand.
6	Summary	A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also oversee the commercial banking system of their respective countries.The quantitative measures used by central bank like Legal reserve ratio, OMOs, Bank rate have been explained along with their working in times of excess/ deficit demand.
7	Key Words	OMOs, CRR, SLR, LRR, Bank rate, Excess demand, Deficit demand, Quantitative instruments
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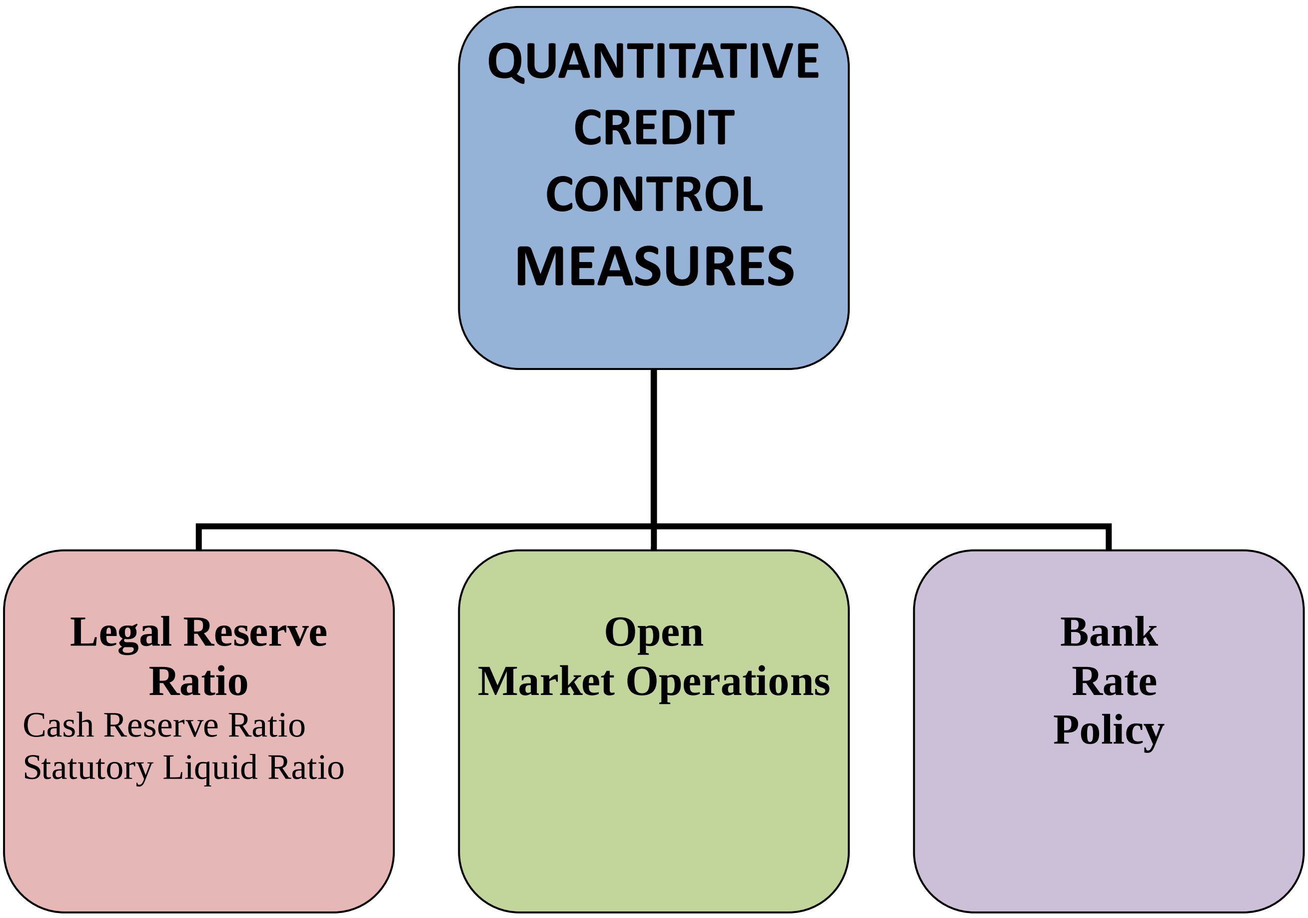
CENTRAL BANK

DEFINITION:

- A central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries. The chief executive of a central bank is normally known as the Governor, President or Chairman. In contrast to a commercial bank, a central bank possesses a monopoly on increasing the amount of money in the nation. They also prints the national currency, which serves as the nation's legal tender.

- The primary function of a Central bank is to manage the nation's money supply (monetary policy), through active duties such as managing interest rates, setting the reserve requirement, and acting as a lender of last resort.



INSTRUCTIONS to CIET:

a) Three hyper links to be developed to explain the above measures HYPER LINK 1, 2, 3.
b) Each hyper link to appear with a sound effect.
c) The content of the hyper link is as mentioned below in the boxes link 1, 2 and 3.

LINK 1: LEGAL RESERVE RATIO

1. Legal Reserve Ratio (LRR): It is the legal minimum fraction of deposits which the banks are mandated to keep as cash with themselves. The LRR is fixed by the Central Bank. It has two

components: Cash Reserve Ratio and Statutory Liquidity Ratio.

- **Cash Reserve Ratio (CRR):** It is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves, either in cash or as deposits with the central bank. CRR is set according to the guidelines of the central bank of a country.

  a) If **RBI increases CRR**, Banks have to keep larger percentage of their deposits with RBI, their credit giving ability decreases and money supply decreases.
  b) If **RBI decreases CRR**, Banks have to keep smaller percentage of their deposits with RBI, their credit giving ability increases and money supply increases.

- **Statutory Liquid Ratio (SLR):** It is the Indian government term for reserve requirement that the commercial banks in India require to maintain in the form of gold, government approved securities before providing credit to the customers.

  a) If **RBI increases SLR** banks credit giving ability decreases and **money supply decreases**.
  b) If **RBI decreases SLR** banks credit giving ability increases and thus **money supply increases.**

LINK 2: OPEN MARKET OPERATIONS

2. Open Market Operations (OMOs): It is the buying and selling of government security by the Central Bank from/to the public and banks on its own account.

- **Sale of government securities will reduce reserves:**

RBI sells securities, banks gives RBI a cheque for the securities. The RBI collects the amount by reducing the bank's reserves by the particular amount. This directly reduces bank's ability to give credit. Therefore this **decreases money supply** in the economy.

- **Purchase of securities by RBI from banks:**

RBI gives the bank a cheque drawn on itself in the payment for the securities. When cheque clears, RBI increases reserves of the bank by the particular amount. This directly increases the bank's ability to give credit. Thus **money supply increases**.

LINK 3: BANK RATE POLICY

3. Bank Rate Policy: Bank rate is the rate at which Central Bank lends funds to commercial banks for long term.

- **If bank rate increases:**

Cost of borrowing from RBI increases. So banks borrow less, their credit giving ability decreases. Banks also increase lending rates i.e. rate at which they lend to public. This discourages businessmen from taking loans. This **reduces volume of credit and money supply.**

- **If bank rate decreases:**

Cost of borrowing from RBI decreases. So, banks borrow more and their credit giving ability increases. Banks also decrease lending rates i.e. rate at which they lend to public. This encourages businessmen for taking loans. This **increases volume of credit and money supply**.

Student's Activity:

1. Central Bank ______ credit. (control/ create)
2. The ______ rate at which Central Bank lends funds to commercial banks. (bank rate/ market interest rate)
3. Buying and selling of government security by the Central Bank from/to the public and banks on its own account is known as ________. (open market operations/ margin requirement)
4. If RBI increases CRR, banks have to keep ________percentage of their deposits with RBI. (larger/ smaller)
5. Full form of SLR is _________.
6. RBI decreases SLR, banks credit giving ability __________. (increases/ decreases)
7. In times of excess demand, government needs to ________ bank rate. (increases/ decreases)
8. In times of deficit demand, government needs to ________ government securities. (buy/ sell)

ANSWERS: 1. Controls 2. Bank Rate 3. Open Market Operations 4. Larger 5. Statutory Liquid Ratio 6. Increases 7. Increases 8. Buy