

World Trade Organization (WTO)

WTO came into existence on 1st January, 1995 in place of GATT (General Agreement on Trade & Tariff). The WTO is a powerful body which broadly aims at making the whole world a big village where there is free flow of goods and services, capital technology and people and where there are no barriers to trade. Its present membership is 164 countries 164 countries accession of which 117 are developing countries or separate customs territories accounting for about 95% at world trade. WTO forbids the use of quantitative restriction on trade. WTO organizes and manages trade in goods and services, TRIPs (Trade Related Intellectual Property Rights) on the world level. Agreement of trade related intellectual property rights patent amendment act 1999 was passed for providing EMR's (Exclusive Marketing Rights).

- PTA – Plurilateral Trade Agreements
- MTA – Multi Lateral Trade Agreements

Chapter 8 - Money & Banking

Meaning of Money:

Anything which performed the following three functions is known as money

- Served as medium of exchange
- Served as a common measure of value and
- Served as a store of values, was termed as money.

It thus includes, not only currencies and demand deposits (Saving Account) of banks, but also includes a host of financial assets such as bonds, government securities, and time deposits with banks (Fixed Deposit) and equity shares which serve as a store of value.

Bills of exchange are sometimes known as Near Money

Money Stock in India

M1 = Currency with the public i.e., coins and currency notes + Demand deposits of the public known as narrow money.

M2 = M1 + Post office saving deposits.

M3 = M1 + Time(fixed) deposits of the public with banks called broad money .

M4 = M3 + Total post office deposits. (Excluding National Saving Certificates)

The third RBI working group (1998) redefined its parameters for measuring money supply and introduced new monetary aggregates (NM).

NM1 = Currency + Demand deposits + Other deposits with RBI.

NM2 = NM1 + Time liabilities portion of saving deposits with banks + Certificates of deposits issued by banks + Term deposits maturing within a year excluding FCNR (B)

(Foreign Currency now Reserve Bank Deposits).

NM3 = NM2 + Term deposits with banks with maturity over one year + Call / term borrowings of the banking system.

NM4 has been excluded from the scheme of new monetary aggregates. Three liquidity aggregates are also introduced L₁, L₂, L₃.

Functions of Bank

- Receipt of deposits
- Lending of money
- Agency services (eg: Payment of bill)
- General services (locker, issue DD)
- ATM (Automatic Teller Machine) / Automated Banking Machine (ABM)
- RTGS (Real Time Gross Settlement)
- NEFT (National Electronic Fund Transfer)
- ECS (Electronic Clearing Service)

Commercial Banking in India: Government announced the nationalisation of 14 major commercial banks with effect from July, 1969. Six more banks were nationalised in 1980. (Two banks were merged in 1993, so at present there are 19 nationalised banks).

Scheduled: Under RBI [Co-op, private (ICICI, HDFC), Public (National Banks, SBI, Union Bank), Foreign (Citi Bank, HSBC Bank)]

Not Scheduled: Not directly Under RBI.

Factors responsible for Nationalization of Commercial Banks

- Private ownership of commercial banks and concentration of economic power
- Urban-bias
- Neglect of agricultural sector
- Violation of norms and granted loans to even those industries which figured no where in the priority list.
- Neglect of priority sectors.

Progress of Commercial Banks after Nationalisation:

- (i) Expansion of branches: Increased to 1,34,000 in 2016. As a result, the population per bank office has reduced to around 10,000 in 2016.
- (ii) Branch opening in rural and unbanked areas: Percentage of rural branches bank improved to about 37 per cent in June, 2016.
- (iii) Deposit mobilisation: Increased to around 93,27,300 crore in 2016. Considering state-wise deposit mobilization, we find Maharashtra leads all other states and accounts for 22 per cent of the aggregate deposits received by the banks.
(Agriculture + SSI + Retail Trade = 34% in 2016)
- (iv) Bank lending: It has gone up to about ₹ 72,50,000 crore in April, 2016. Banks have taken special care of the priority sectors in their lending operations.
- (v) Promotion of new entrepreneurship
- (vi) Due to stringent credit norms the gross NPAs (Non-Performing Assets) have fallen. As a percentage of gross advances, they have fallen from 10.5 percent in 2001-02 to 3.6 per cent in 2012-13. But NPA has increased to 9.83% in 2015-16.

Reserve Bank of India (RBI):

Meaning and Function of a Central Bank: A Central Bank is one which constitutes the apex of the monetary and banking structure of a country

Functions of Reserve Bank of India:

- (i) Issue of currency: Other than one rupee coins and notes and subsidiary coins, the magnitude of which is relatively small.
- (ii) Banker to the government
- (iii) Banker's Bank
- (iv) Custodian of foreign Exchange Reserves
- (v) Controller of Credit
- (vi) Promotional Functions
- (vii) Collection and publication of Data

Indian Monetary Policy

Monetary Policy is usually defined as the Central Bank's policy pertaining to the control of the availability, cost and use of money and credit with the help of monetary measures in order to achieve specific goals.

I. Quantitative or General Measures:

- (a) **Bank Rate Policy:** Bank Rate is the rate at which central bank rediscounts the approved bills held by a commercial bank for long term. (6.25 in August 2017)
(BR increase - Supply of Money Decrease - Inflation decrease & Vice Versa)
- (b) **Open market operations:** Open market operations imply deliberate direct sales and purchases of securities in the market by the Central Bank on its own. (Market Security sell - Money supply in market decrease - inflation decrease & Vice Versa)
- (c) **Variable reserve requirements:** (i) Cash Reserve Ratio (CRR) (ii) Statutory Liquidity Ratio (SLR). Cash reserve ratio refers to that portion of total deposits which a commercial bank has to keep with the Central Bank in the form of cash reserves. Statutory liquidity ratio refers to that portion of total deposits which a commercial bank has to keep with itself in the form of liquid assets viz - cash, gold or approved government securities. By these ratios, the Central Bank controls credit in the economy. (CRR was 4% in Aug, 17, SLR was 20% in July 17.)
(CRR / SLR increase - Supply of Money Decrease - Inflation decrease & Vice Versa)
- (d) **Repo Rate and Reverse Repo Rate:** Repo Rate is the rate at which our banks borrow rupees from RBI. Repo Rate is 6% in August 2017.
Reverse Repo Rate is the rate at which Reserve Bank of India (RBI) borrows money from banks. Reverse Repo Rate is 5.75% in August 2017.
(Repo Rate increases - supply decreases - inflation decreases & vice versa)
(Reverse Repo Rate increases - supply decreases - inflation decreases & vice versa)

II. Qualitative or Selective Measures:

- (a) Securing loan regulation by fixation of margin requirements (Value of security - Value of Loan).
- (b) Consumer credit regulation: Number of Installments & Down Payment.
- (c) Issue of directives to CB (Commercial Bank).
- (d) Rationing of credit: Regulating the purpose for which credit is granted or allocated by commercial banks.
- (e) Moral suasion: Moral suasion implies persuasion and request made by the Central Bank to the commercial banks to co-operate with the general monetary policy.
- (f) Direct Action: The Central Bank may take direct action against the erring Commercial banks.

Extra's

- ✓ RBI was nationalized in 1949.
- ✓ land development Bank provides loans for a period of 15-20 years.

- ✓ Minimum Reserve System method of note issue is prevailing in India.
- ✓ Banking ombudsman means a person who redresses customer's grievances.
- ✓ RBI Act was made in 1934.
- ✓ 1975 (Regional Rural Banks 196).
- ✓ 1982 National Bank for Agriculture and Rural Development Bank (NABARD) was established.
- ✓ At present (in Aug. 2017), Bank rate is 6.25%, CRR is 4% and SLR is 20% for entire demand and time liabilities.
- ✓ RBI is established in 1935 under RBI Act, 1934

Monetary policy of central bank

Monetary policy is the policy of RBI to control & regulate credit & money Supply with the help of quantitative & qualitative measures of credit control.

Main objectives of monetary policy are

1. Price stability
2. To correct Adverse BOP
3. Full employment
4. Economic Growth
5. Balanced Regional Development

EXIM Bank → for foreign Trade

SIDBI → MSME

NABARD → Agriculture & Rural Development

6. Great Equality of income and wealth distribution

Instruments of credit control of monetary policy

(i) Quantitative/General measures are designed to control & regulate volume of credit in market.

Main Instruments or measures of Quantitative method are as follows :

1. **Bank Rate:** is the rate at which central bank re – discounts the approved bills of exchange of commercial Banks. Bank rate is the rate at which central Bank gives loan to commercial Bank for long term.
At present Bank Rate is 6.25% (in August, 2017)
- ❖ **Rapo Rate (RR)** is the rate at which central Bank provides loans and advances to commercial Bank for short term
At present, Rapo Rate is 6% (August, 2017)
- ❖ **Reverse Rapo Rate (RRR)** is the rate at which RBI borrows money from the banks.
At present, Reverse Rapo Rate is 5.75% (August, 2017)
2. **Open market operations (OMO)** means sale and purchase of Government securities & foreign Exchange
3. **Variable Reserve Ratio (VRR)**

OR

Legal Reserve Ratio (LRR) It is the sum of (CRR + SLR)

- ❖ **CRR** → Cash Reserve Ratio means every commercial Bank is required to keep certain % total cash deposits with RBI.
At present, CRR is 4% (August, 2017)
 - ❖ **SLR** → Statutory Liquidity Ratio means every commercial bank is required to keep certain % of total cash deposits with itself by investing it in government approved securities.
At present, SLR is 20% (July, 2017)
- (ii) Qualitative or selective measures are designed to control & regulate purchase and direction of credit in the market main instruments or measures of qualitative or selective measures of credit control are
1. Margin Requirement = Value of Asset – value kept as security of Loan
 2. Moral suasion means appeal to commercial Banks public by pressure & persuasion
 3. Regulation of consumer credit means changing down payment & no of Installment rules for credit
 4. Credit Rationing means change max. Limit and purchase of loan.
 5. Direct Action means taking corrective actions against error making banks.

	Inflation	Deflation
(i) Quantitative measure		
1. Bank Rate, Rapo Rate, RRR	↑	↓
2. Open Market operation	sale	Purchase
3. LRR = CRR + SLR	↑	↓
(ii) Qualitative measures		
1. Margin Requirement	↑	↑ MS
2. Moral suasion	↓ MS	Simple (less D.P. more int.%)
3. Regulation of consumers credit	Tough	↑ max. Limit of loan & purpose
4. Credit Rationing	↓ Max. Limited & no of purpose	↑ MS
5. Direct Action	(↓ money supply)	

Demonetization: Demonetization of currency means discontinuity of a particular form of circulation and replacing it with a new currency.

The government of India in November, 2016, demonetized ₹ 500 and ₹ 1000 currency. That means that the legal tender of currency units was declared invalid from the specified date. The move of demonetization has been welcomed on the following grounds.

- It would help the government to track unaccounted black money or cash on which income tax has not been paid.
- It would help in reducing illegal activity. Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now.
- Fake currency circulation would come to a halt in a single shot.
- Demonetization could help controlling inflation. When there is very high inflation. One solution can be to completely change the currency and to start afresh.
- Money deposited in the bank during demonetization can be taxed especially if the affected parties were trying to evade taxation by keeping hard cash.
- Available of cheap deposits in financial institutions means that people can borrow money at low interest rates.
- Due to low lending rates, improved revenue collection, and growth in savings and deposits, a country that has demonetized is likely to see an improvement in the growth of its GDP.

However, demonetization has the following main disadvantages:

- Cash crunch due to non-availability of small denomination currency at least in the short run
- Increase the cost as the government had to bear the cost of printing of new currency and its circulation,
- Inconvenience to the public.
- Economic growth may get affected in the short run due to business disruptions.
- The normal trading activities may be disrupted by this process since it takes time for consumers and suppliers to adjust to the new monetary policy.

MODEL TEST PAPER

101. Which of the following is a reason for the negative slope of the PPF?
- The inverse relationship between the use of technology and the use of natural resources.
 - Scarcity at any point in time we have limited amounts of productive resources.
 - Resource specialization
 - Increasing opportunity costs.
102. SJSRY stands for
- Swaran Jayanti Shahari Rozgar Yojana
 - Shahari Jeewan Sudhar Rashtriya Yojana
 - Sampoorna Jeewan Shahari Rozgar Yojana
 - None of the above
103. Who is the regulatory authority for telecom in India?
- SEBI
 - TRAI
 - MTNL
 - BSNL
104. Which of the following has resulted in failure to achieve targets of industrial production?
- Poor Planning
 - Power, finance and labour problems
 - Technical complications
 - All of the above
105. Oil and Natural Gas Corporation Indian Oil Corporation, Steel Authority of India, and Bharat Heavy Electricals are all examples of
- Small Scale units
 - Private sector units
 - Public sector units
 - Sick units
106. Which of the following statements is correct with regard to external sector in the pre-reform period?
- The foreign trade policy was very liberal, it allowed import of all types of goods.
 - Import of food grains was strictly prohibited
 - The balance of payments situation was quite comfortable
 - None of the above.
107. In the present context, money stock in India refers to :
- | | |
|--------|--------|
| (a) M1 | (b) M2 |
| (c) M3 | (d) M4 |
108. Giffen goods are those goods _____
- For which demand increases as price increase
 - That have a high income elasticity of demand
 - That are in short supply
 - None of these
109. Three methods of computing national income are _____
- Production, outlay and income methods
 - Balance of payments, income and consumption methods.
 - Saving, investment and income methods
 - Outlay, depreciation and production methods.
110. The lender of last resort' means
- The government coming to the rescue of poor farmers
 - Central Bank coming to the rescue of other banks in times of financial crisis.
 - Commercial banks coming to the rescue of small industrial units
 - People coming to the rescue of commercial banks in times of their financial crisis.
111. Demand for final consumption arises in _____.
- Household sector only.
 - Government sector only.
 - Both household and government sectors.
 - Neither household nor government sector.
112. _____ is a systematic record of all the economic transactions between one country and rest of the world.
- | | |
|----------------------|-----------------------------|
| (a) Balance of trade | (b) Balance of transactions |
|----------------------|-----------------------------|

- (b) Budget
 (c) Balance of payments
113. If borrowings and other liabilities are added to the budget deficit we get _____
- (a) Revenue deficit
 (b) Capital deficit
 (c) Primary deficit
 (d) Fiscal deficit

Consider Sumit's production data given in the table. Use Table to answer questions 114-118

Number of Workers	Total Output
1	10
2	22
3	31
4	40
5	47
6	52
7	56
8	58
9	60
10	61

114. Suppose Sumit has to pay his worker ₹ 20 per hour, and further suppose there are no other production costs at all. What is the marginal product of the 5th worker?
- (a) 12 (b) 9
 (c) 7 (d) 8
115. In Table Sumit's Average Total Cost when 40 units are produced is:
- (a) ₹ 2 (b) ₹ 80.
 (c) ₹ 5 (d) ₹ 20
116. Using data in Table we know that the approximate marginal cost of the 52nd unit of output is:
- (a) ₹ 0.25 (b) ₹ 1.25
 (c) ₹ 2.50 (d) ₹ 4.00
117. Suppose Sumit decides to purchase fire insurance which costs ₹ 87,600 a year. (As it happens, it works out to be ₹ 10 per hour) The approximate marginal cost of the 52nd unit now is:
- (a) ₹ 0.25 (b) ₹ 1.25
 (c) ₹ 2.50 (d) ₹ 4.00
118. Sumit's marginal product of the 9th worker:
- (a) 2 units
 (b) 3 units
 (c) 5 units
 (d) 7 units
119. A necessity is defined as a good having:
- (a) A positive income elasticity of demand
 (b) A negative income elasticity of demand
 (c) An income elasticity of demand between zero and 1.
 (d) An income elasticity of more than 1.
120. If a firm's average variable cost curve is rising, its marginal cost curve must be :
- (a) Constant.
 (b) Above the total cost curve
 (c) Above the average variable cost curve
 (d) All of the above
121. Which among the following is incorrect?
- (a) India adopted planning as her way of life because she wanted to quicken industrialization and economic development with optimum utilization of resources and reduction in inequalities.
 (b) Removal of poverty and the attainment of self-reliance were two basic objectives of the fifth plan.
 (c) India has never been able to achieve its targeted rate of growth.
 (d) The Second plan was a very ambitious plan as seeds of industrialization were sowed.
122. Reserve Bank of India is India's:
- (a) Central Bank
 (b) Biggest commercial Bank
 (c) Biggest cooperative bank

- (d) All of the above
123. Indian economy is mixed economy because:
- (a) Agriculture and Industry have both simultaneously developed in India.
 - (b) Agriculture and Industry have both developed in the public sector.
 - (c) Private ownership and public ownership over means of production co-exist.
 - (d) Any of the above.
124. Indian Population registered a growth of 1.25% per annum during the decade _____.
- (a) 1941 – 51
 - (b) 1961 – 71
 - (c) 1971 – 81
 - (d) 1981 – 91
125. Suppose India's GNP increased at an annual average rate of 6.6% during the Tenth Plan, presuming that the growth rate of population is 2 per cent per annum; per capita income would increase at an annual average rate of _____.
- (a) 3.3%
 - (b) 4.6%
 - (c) 6.6%
 - (d) 2%
126. Product method of calculating national income is also known as _____.
- (a) Income method
 - (b) Value added method
 - (c) Expenditure method
 - (d) Distribution method
127. NDP is GDP minus _____.
- (a) Depreciation
 - (b) Indirect taxes.
 - (c) Subsidies
 - (d) NNP
128. Which of the following statements is correct?
- (a) In a two-good economy, the production possibilities frontier reflects the maximum amount of one good that can be produced when a given amount of the other good is produced.
 - (b) Microeconomics is the study of the behavior of the economy as a whole.
 - (c) Positive economics focuses on welfare of the people of a society
 - (d) None of the above
129. An individual firm in a perfectly competitive market faces a demand curve which is:
- (a) Downward sloping
 - (b) Relatively inelastic
 - (c) Perfectly elastic
 - (d) Upward sloping
130. Which of the following statements is correct?
- (a) Countries which are industrially well-developed generally have higher per capita income than countries which are not
 - (b) India is a capital surplus economy
 - (c) Agriculture sector need not depend upon industrial sector for its growth
 - (d) None of the above.
131. EAS stands for
- (a) Easy Assistance Scheme
 - (b) Endless Assistance Scheme
 - (c) Employment Assurance Scheme
 - (d) Employment Assessment Scheme
132. The effect of increase CRR will be reduced or nullified if :
- (a) Bank rate is reduced
 - (b) Securities are sold in the open market
 - (c) SLR is increased
 - (d) People do not borrow from non-banking institutions
133. Which among the following is an indirect tax?
- (a) Income tax
 - (b) Wealth tax
 - (c) Custom duty
 - (d) Gift tax

134. Net domestic expenditure is consumption expenditure plus _____
- Net foreign investment
 - Net foreign investment plus net domestic investment
 - Net domestic investment
 - Replacement expenditure
135. Custom duties are levied on _____.
- Incomes of the individual
 - Production of goods
 - Export and import of goods
 - Incomes of the corporate
136. If as a result of 20 percent fall in the ticket fares the demand for 'watching movie' in the cinema hall increases by 10 percent, then _____.
- Zero
 - Greater than zero but less than one
 - One
 - Greater than one
137. When some people in a society are unwilling to work at the prevailing wage rate and there are people who have income from property or some other sources and need not work, such people are:
- Casually unemployed
 - Chronically unemployed.
 - Voluntarily unemployed
 - Disguisedly unemployed
138. If out of 100 people in the labour force, 92 are in the work force, the number of people unemployed is:
- 8
 - 192
 - 100
 - 92
139. If demand for goods and services is more than their supply, the resultant inflation is:
- Cost push inflation
 - Stagflation.
 - Deflation.
 - Demand pull inflation.
140. Estate duty was levied on the _____.
- Incomes of the individual
 - Production of goods
 - Export and import of goods
 - Total property passing to the heirs on the death of a person.
141. _____ Countries are more subject to cyclical fluctuations.
- European
 - Capital biased, advanced countries
 - Asian
 - American
142. Electricity generated from water is called
- Thermal electricity.
 - Hydel electricity.
 - Atomic energy.
 - Tidal energy.
143. Suppose that the price of a new bicycle is ₹ 200. Natalie values a new bicycle at ₹ 400. What is the value of total consumer surplus if Natalie buys a new bike?
- | | |
|-----------|-----------|
| (a) ₹ 500 | (b) ₹ 300 |
| (c) ₹ 200 | (d) ₹ 400 |
144. Suppose that at a price of ₹ 300 per month, there are 30,000 subscribers to cable television in small Town. If Small Town Cablevision raises its price to ₹ 400 per month, the number of subscribers will fall to ₹ 20,000. Using the midpoint method for calculating the elasticity, what is the price elasticity of demand for cable TV in Small Town?
- 1.4
 - 0.66
 - 0.75
 - 2.0

145. If a buyer's willingness to pay for a new car is ₹ 2,00,000 and she is able to actually buy it for ₹ 1,80,000 her consumer surplus is
- (a) ₹18,000
 - (b) ₹ 20,000
 - (c) ₹ 2,000
 - (d) ₹ 0
146. Which of the following is not part of the opportunity cost of going on holiday?
- (a) The money you spent on a theatre show
 - (b) The money you could have made if you had stayed at home and worked
 - (c) The money you spent on airline tickets
 - (d) The money you spent on food
147. Which of the following statements is normative?
- (a) Large government deficits cause an economy to grow more slowly.
 - (b) People work harder if the wage is higher
 - (c) The unemployment rate should be less.
 - (d) Printing too much causes inflation.
148. If 4 farmers can do a field job which is being done by 6 farmers, this means there is:
- (a) Frictional unemployment
 - (b) Disguised unemployment
 - (c) Voluntary unemployment
 - (d) Seasonal unemployment
149. The rate of inflation was lowest in _____
- (a) Fifties
 - (b) Sixties
 - (c) Seventies
 - (d) Eighties
150. In the year _____, the practice of RBI lending to the government through ad hoc treasury bills was given up.
- | | |
|----------|----------|
| (a) 1951 | (b) 1997 |
| (c) 1991 | (d) 2001 |