

# Fundamentals of Economics- Credit control and its method

## Agenda

- Credit control
- Objective of credit control
- Open market instrument: Meaning, Usefulness, Limitations
- Bank Rate Policy: Meaning, how it works?, Limitations
- Margin requirements: Meaning

<https://www.youtube.com/watch?v=3hjR1VY0sdg>

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# Credit control

- Function of central bank
- Central bank Controls credit operations of commercial banks.
- Monetary policy is implemented through credit control by central bank.

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# Objective of credit control



Stabilization of general price level



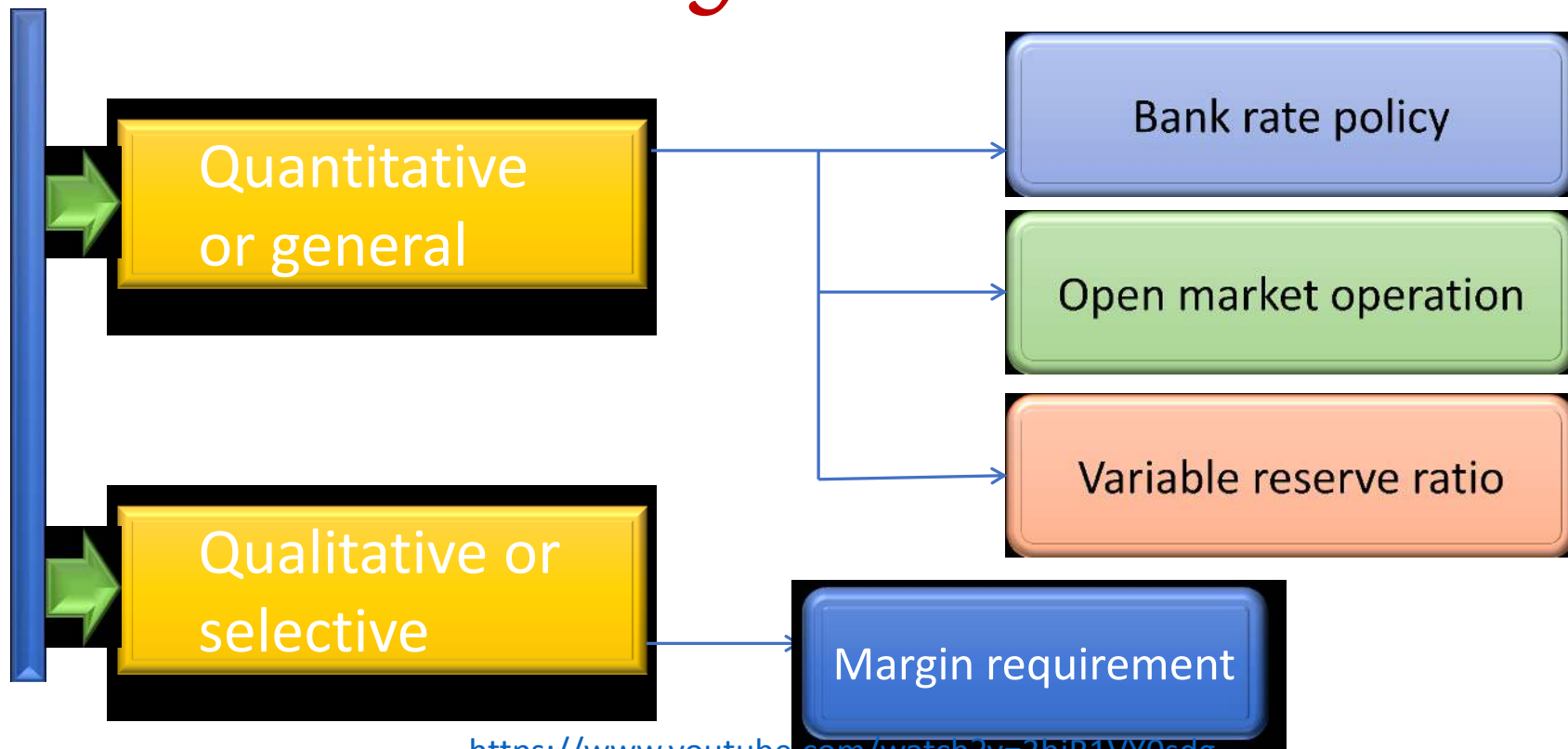
Stabilization of money market



Promoting economic growth

<https://www.youtube.com/watch?v=3hjR1VY0sdg>

# Instrument of Credit Control



<https://www.youtube.com/watch?v=3hjR1VY0sdg>

# Bank Rate Policy (BRP)

- Traditional weapon of credit control
- Rate at which interest is charged by the central bank for providing cash, is known as bank rate or discount rate.
- Influence **cost** and **availability of credit** to members of bank
- Distinct from **Market Rate**

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# METHOD OF WORKING OF BANK RATE POLICY

<https://www.youtube.com/watch?v=3hjR1VY0sdg>

# Limitations of Bank Rate Policy



Existence of organized and developed money market



Existence of well-developed Bill market



Banks need for rediscounting



Practice of free exchange rate system



Business expectations



Interest-inelasticity of bank deposits

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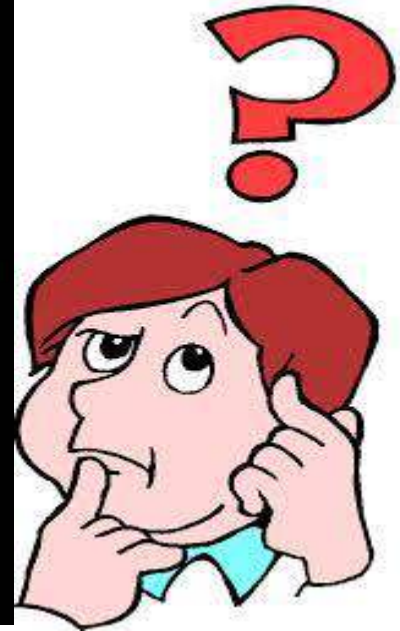
# Open Market Operations

- Direct sales and purchases of securities and bills in the open market by the central bank to control the volume of credit
- Primary means of implementing monetary policy

<https://www.youtube.com/watch?v=3hjR1VY0sdg>



# How Open Market Operations works?



<https://www.youtube.com/watch?v=3hjR1VY0sdg>

# Usefulness of Open Market Operations

Enhance the efficacy of the bank rate

Assist government borrowing

Contracting extreme trends in business

<https://www.youtube.com/watch?v=3hJR1VY0sdg>

# Limitations of the open market operations

- Lack of well-developed securities market
- Contradiction between bank rate and OMO
- Restricted dealings
- Difficulties in execution
- Precautions for stabilizing the government securities market
- Assumptions of constant velocity

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# Superiority of Open Market Operations

<https://www.youtube.com/watch?v=3hjR1VY0sdg>

Examrace