

Fundamentals of Economics – CENTRAL BANK AND ITS FUNCTION

Agenda

- Central bank, meaning and definition
- RBI, central bank of India
- Functions of central bank

Watch the video at -

https://www.youtube.com/watch?v=dM_fA9WHKxY

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Central bank

https://www.youtube.com/watch?v=dM_fA9WHKxY



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Central bank of India

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Reserve bank of India (RBI)

https://www.youtube.com/watch?v=dM_fA9WHKxY


- India's central banking institution
- Established on 1st April, 1935.
- Nationalized in 1949
- Controls monetary policy of Indian rupee.



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Functions of central bank

https://www.youtube.com/watch?v=dM_fA9WHKxY



Monopoly of note issue
Banker, Agent and Advisor to the Government
Custodian of foreign exchange reserve
Banker to commercial bank
Controller of credit
Promoter of economic development

Central bank as a bank of note issue

Advantages of giving monopoly of note issue to central bank

Brings uniformity in issue of notes and its circulation

Control over the money supply

Monetary management become easier

Control over the creation of credit by commercial bank

Avoids political interference in the matter of note issue



Uniformity

Elasticity

Security

Banker, Agent and Advisor to the Government

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As a banker,

→ Maintain account of central as well as state govt.

→ Receives deposits from govt.

→ Makes short term advances

→ Collect cheques and drafts deposited in govt. a/c

→ Provides foreign exchange resources



As an agent,

→ Collects taxes and other payment on behalf of govt.

→ Represents govt. in international financial institution and conferences

→ Manages public debt



As an advisor,

→ Gives advise to govt. on various matters

As a custodian of foreign exchange reserve

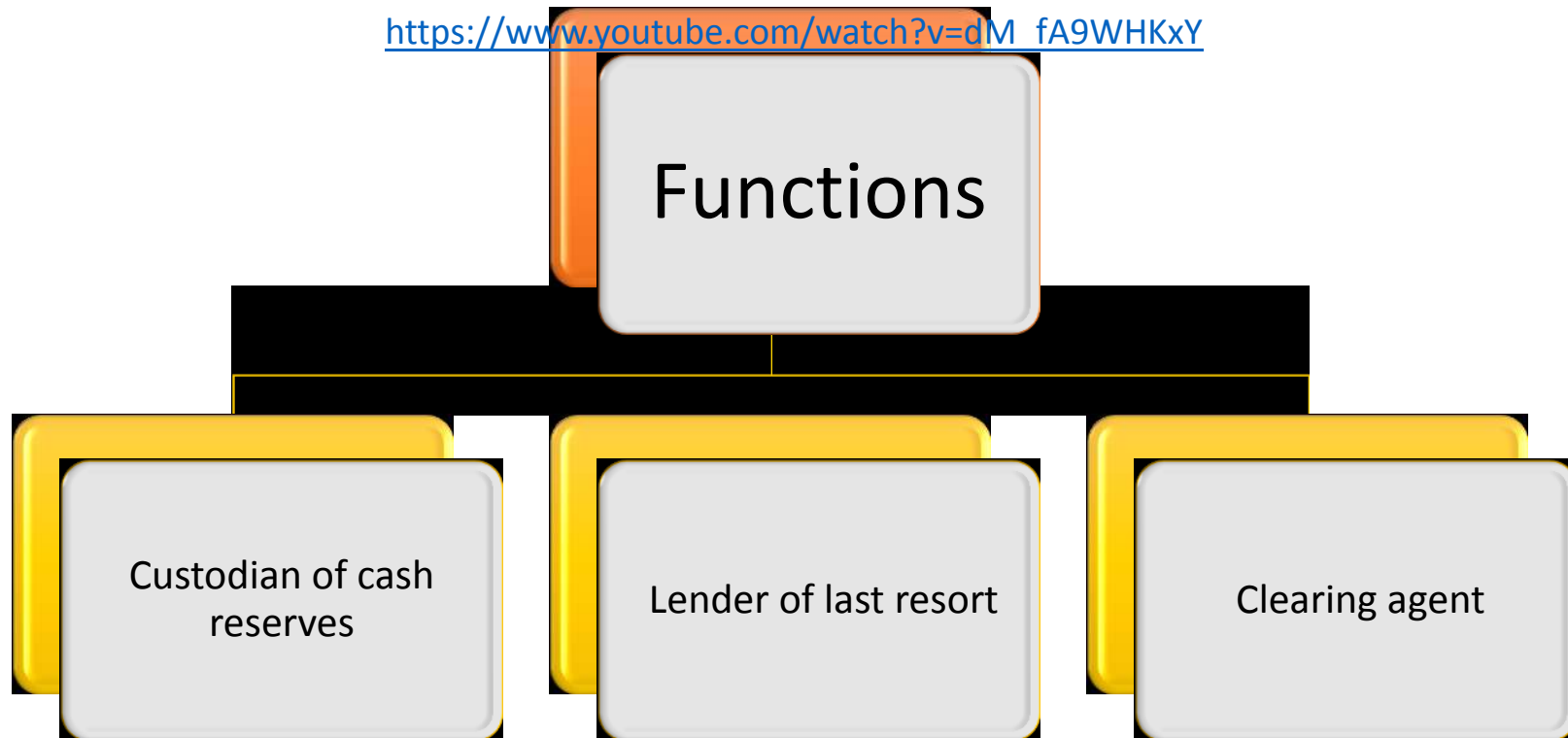
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- Holds all foreign exchange reserves like,
U.S. dollars,
British pounds etc.
Gold stocks, gold bullions etc.
- Controls over foreign exchange

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As banker to commercial bank (Banker's bank)

https://www.youtube.com/watch?v=dM_fA9WHKxY



Centralized cash reserves

https://www.youtube.com/watch?v=dM_fA9WHKxY

ADVANTAGES

- Inspire confidence of public in commercial banks.
- Forms basis of longer and elastic credit structure
- Enables central banks to provide funds to needy banks
- Conducive to the growth of the economy
- Controls credit creation of commercial banks through various reserve ratio

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Lender of the last resort

ADVANTAGES

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- Increases the elasticity and liquidity of the whole credit structure of the economy
- Enables the commercial banks to carry on their activities even with their limited cash reserves
- Provides financial help to the commercial banks in times of emergency
- enables the central bank to exercise its control over banking system of the country

Clearing agent

https://www.youtube.com/watch?v=dM_fA9WHKxY

ADVANTAGES

- Economies the use of cash by banks while settling their claims and counter
- Reduces the withdrawals of cash and these enable the commercial banks to create credit on a large scale-claims
- Keeps the central bank fully informed about the liquidity position of the commercial banks

Controller of credit

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

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