

Fundamentals of Economics – Commercial banking system

Agenda

- Definition of bank
- Types of bank
- Commercial bank
- Functions of commercial bank
- credit creation

<https://www.youtube.com/watch?v=jG3L4rBzgrA>

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Bank

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“Bank is a financial institution which **accepts money** from the public for the purpose of **lending** or investment repayable on demand or otherwise **withdrawable by cheques, drafts or order** or otherwise.”

Now, all concepts of money and banking system are cleared..!

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Indian Banks

<https://www.youtube.com/watch?v=jG3L4rBzgrA>



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Types of Banks

Commercial
bank

Co-operative
bank

Specialized
bank

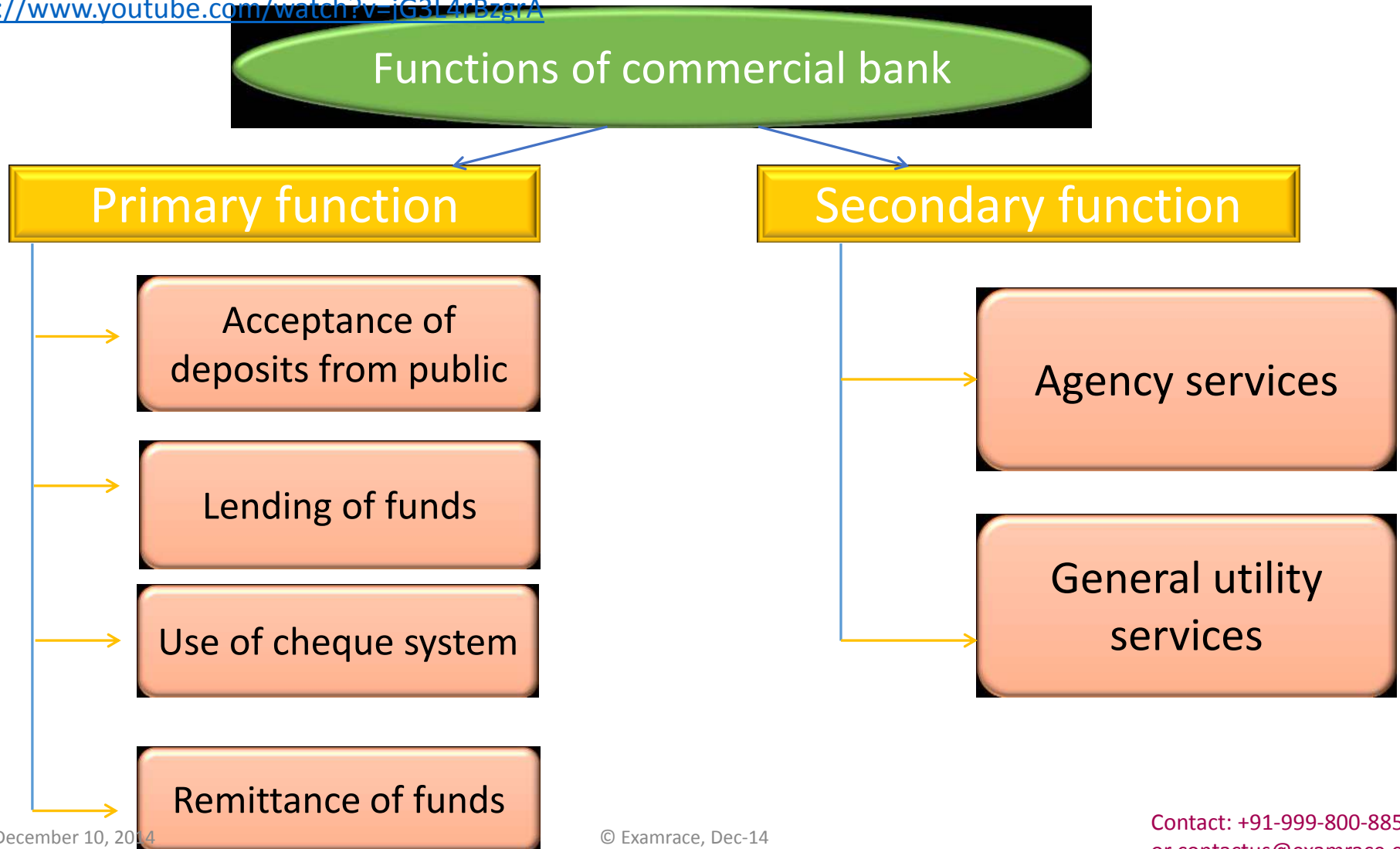
Central bank

Commercial bank

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- Deals with money and credit.
- Usually Provides short-term loans
- Biggest component in banking structure of any nation
- **Commercial bank in India**
- At present, 20 nationalized bank + SBI and its 7 subsidiaries Controls over 90% of banking business

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Acceptance of deposits from public

<https://www.youtube.com/watch?v=jG3L4rBzgrA>

- Mobilize savings of household sector through receiving deposits
- Encourage savings in economy
- Make income earning asset

TYPES OF ACCOUNTS

CURRENT
ACCOUNT

SAVING BANK
ACCOUNT

FIXED DEPOSIT
ACCOUNT

Lending of Funds

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Overdraft

Cash credit

Discounting trade bills

Money at call or short-term advances

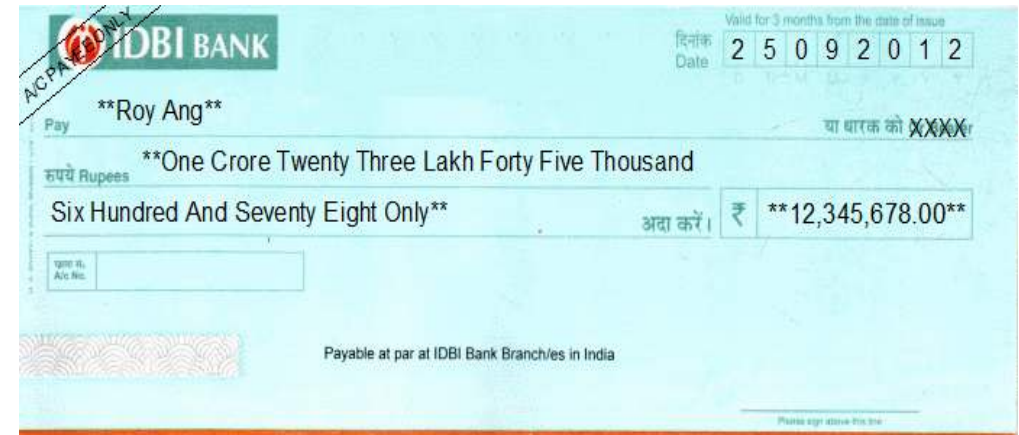
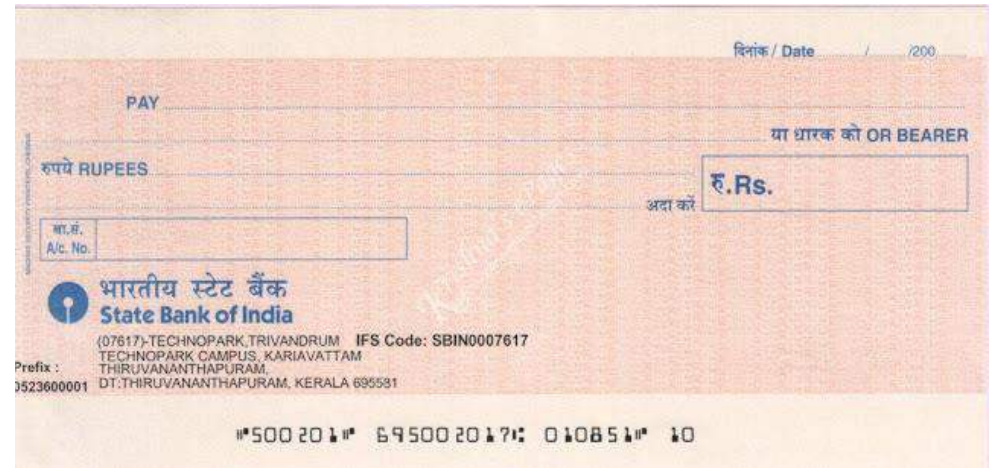
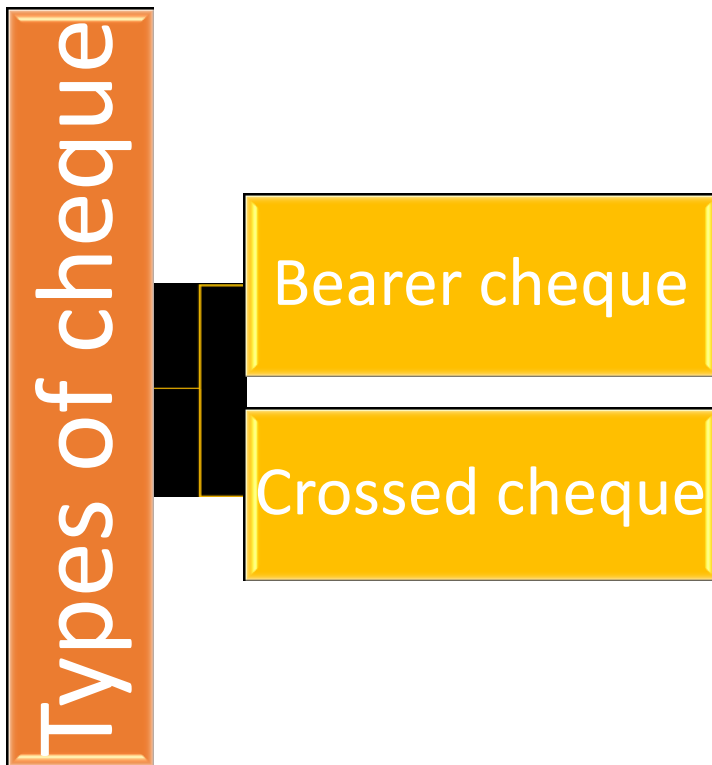
Term loans

Consumer credit

Miscellaneous advances

Use of cheque system

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Remittance of funds

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- Bank drafts
- Telegraphic transfer or mail transfer etc. to remit funds
- Cheaper source

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Agency services

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Bankers perform certain functions for and on behalf of their clients.

To collect or make payments for bills, cheques etc.

To remit funds on behalf of the clients

To act as trustee, executor and attorney for the customers will

Employ income-tax experts for their customers

To work as correspondents, agents or representatives of their clients

General utility services

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Letter of credit, from importer to the exporter

Issue of bank drafts, travelers cheque etc.

Accepts or collects foreign bills of exchange

Act as referee with respect to financial standing, business reputation etc.

Arrange safe deposit vaults- customers entrust their securities

Credit creation

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**BANKS ARE NOT MERELY PURVEYORS OF
MONEY BUT,
ALSO, IN IMPORTANT SENSE,
MANUFACTURERS OF MONEY**

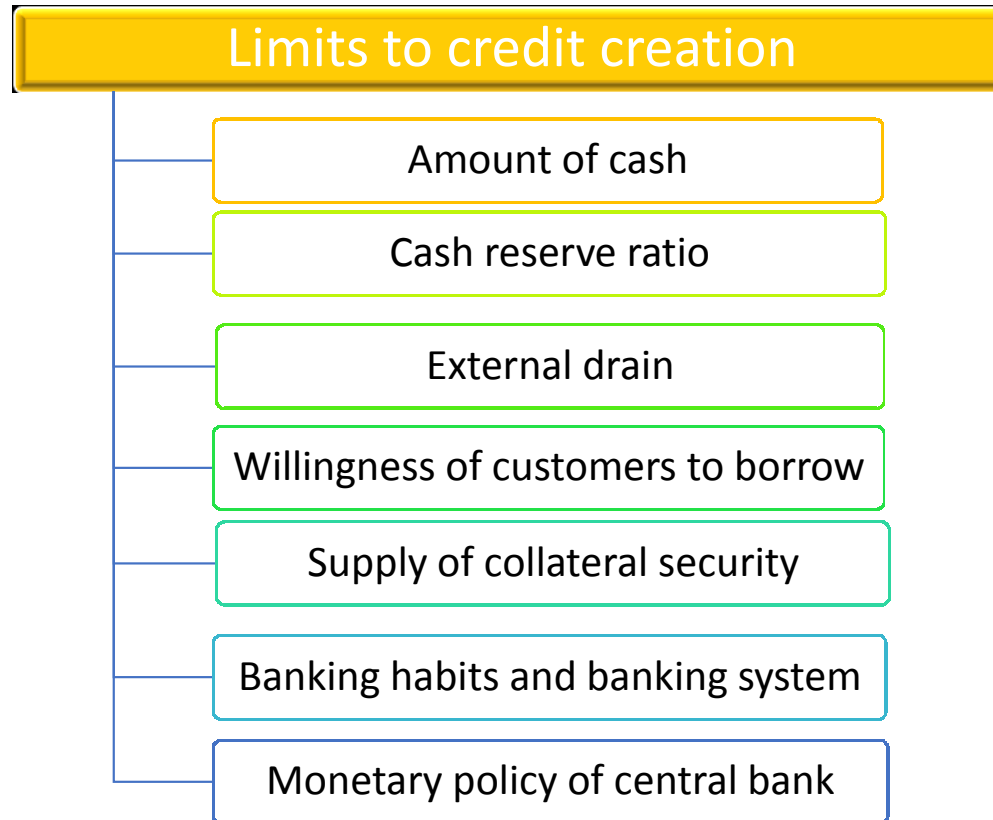
How do Banks creates credit?

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Limits to credit creation



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