STUDY MATERIALS FOR BBA

1. Subject Name : Macroeconomics
2. Semester/Year: Fourth (Semester IV)
3. Name of the Teacher: Dr. Sudip Ghosh
4. Name of the Topic: Measures of Money Supply & Indicators of Monetary control

Measures of Money Supply

Appointments

Money is a medium of exchange that is used for various transactions. It is a standard unit in terms of which all prices are expressed. The supply of money (with the people or the volume of money in circulation) refers to the volume held by the public in the country

Work to do

i.e. by individuals and business houses. The following are included in supply of money currency:

(I) Demand deposits of commercial banks (DD)

(II) Saving deposits of commercial banks

(III) currency with the public (C)

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(IV) Other deposits held by the public with RBI (OD)

(V) Post office saving deposits

(VI) Time deposits of commercial banks

(VII) Post office time deposits

~~Where~~ M1 (or Narrow Money) = C + DD + OD

Appointments

= Currency with the public (i.e coins and currency notes) + demand deposits of ~~the~~ f commercial banks + Other deposits held by the public with RBI

M2 = M1 + Post office savings deposits

~~M3 = M1 + Post office saving deposits~~

Work to do

M3 (Broad Money) = M1 + Time deposits of commercial banks

M4 = M3 + total Post Office deposits (fixed deposits + saving deposits) excluding NSC.

Indicators of Monetary Control

Appointments

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Major indicators of monetary control in India are as follows:

1) Cash Reserve Ratio (CRR): Cash Reserve Ratio (CRR) is the share of a bank's total deposit that is mandated by the RBI to be maintained with the latter in the form of liquid cash. When the RBI decides to increase the CRR, the amount of money that is available with the bank reduces. This is the RBI's way of controlling the excess flow of money in the economy. The cash balance that is to be maintained by ~~of~~ scheduled banks with the RBI should not be less than 4% of the total Net Demand and Time Liabilities (NDTL). This is done on fortnightly basis.

2) Statutory Liquidity Ratio (SLR): In India, Statutory Liquidity Ratio (SLR) ~~is the~~ refers to the reserve requirement

that commercial banks are required to maintain
Appointments
in the form of cash, gold reserves. RBI approved
securities before providing credit to the customers.
The SLR to be maintained by the RBI in order to
control the expansion. It is determined as a percen-
tage of total demand and time liabilities. The SLR is
commonly used to control inflation and fuel growth
by decreasing or increasing the money supply.

Bank Rate

A bank rate is the interest rate at which a nation's
central bank lends money to domestic banks, often
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+ inflation is higher than desired.

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Bank Rate

A bank rate is the interest rate at which a nation's central bank lends money to domestic banks, often in the form of very short term loans. ~~Management~~ Managing the bank rate is a method by which central banks affect economic activity. Lower bank rates can help to expand the economy by lowering the cost of funds for ~~borrowing~~ borrowers and higher bank rates help to reign in the economy when +

and borrowings to consumers.

Reverse Repo Rate

Repo rate refers to the rate at which commercial banks borrow money by selling their securities to the Central Bank of our country i.e. RBI to maintain liquidity, in case of shortage of funds or due to some statutory measures. It is one of the main tools of RBI to keep inflation under control.

Reverse Repo Rate is a mechanism to absorb the liquidity in the market, thus restricting the borrowing power of investors. Reverse Repo Rate arises when the RBI borrows money from banks and when there is excess liquidity in the market. The banks benefit out of it by receiving interest for their holdings with the Central Bank. During high levels of inflation in the economy, the RBI increases the reverse repo rate. It encourages the banks to park more funds with the RBI to earn higher return on excess funds. Banks are left with lesser funds to extend loans.