Daffodil Institute of Information Technology (DIIT)
First Year, Second Semester
Bachelor of Business Administration (BBA)
Theory and Practice of Banking

Chapter-3
CENTRAL BANKING PRACTICE

Central Banking Practices: Definition of Central Bank, Features or Nature of Central Bank, Functions of Central Bank, Principles of note issue, Checking Deposit: Practice and problem, Define Financial Deepening, Loan classification system, Define paper standard, Discuss the merits& demerits of paper standard, Monetary Economics, Discuss the monetary tools how central bank control money supply (Ms), Reserve requirement, Discuss the Various, Demands for money, Commodity Money, Representative Money, Two Different, Thoughts of Expectations, Function of Money.

1. What do you mean by central bank?

Central bank: Central bank is an apex institution of the monetary system which seeks to regulate the functioning of the commercial banks of a country. Central bank, reserve bank, or monetary authority is an institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries.

According to Kent, "Central Bank may be defined as an institution which is charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of general public welfare."

2. Describe the Characteristics/ features/ nature/ functions of Central Bank.

Central Bank: A government established agency responsible for controlling the nation's money supply & credit conditions & supervising the financial system especially in commercial banks & other depository institutions. The main characteristics of a central bank are given as below –

1. **Note Issue:-**The main feature of a central bank is the issue of currency notes in the country. The Central bank controls the volume of currency in the country in accordance with requirements of business and the general public.
2. **Banker to The Govt.:-**The Central bank is the banker to the government and also acts as its fiscal agent. The government keeps its balances with it free of interest. It receives and disburses the payments on behalf of the government and also makes advances to the government.
3. **Banker's Bank: –** The Central bank also acts as the banker to the scheduled and other banks. It is the custodian of the cash reserves of the commercial banks. Every schedule bank is required to maintain not less than 5% of its total demand and time liabilities with the Central bank.

Against these obligations, the scheduled banks are entitled to loan and rediscount facilities from the bank. This reserve with the central is considered as good as liquid cash. The provision of reserve enables the central bank to have control over the credit creation of the commercial banks.

4. **Lender of Last Resort: –** The Central bank is the lender of last resort. It maintains a close relationship with the commercial banks. It takes the responsibility of meeting directly or indirectly, all reasonable demands for accommodation from the commercial banks, and other credit institutions under certain terms and conditions.
5. **Controller of Credit: –** One of the important functions of Central bank is to regulate and control the credit in the country according to the varying economic situations. Bank rate policy and open market operations are the direct methods of central bank for controlling credit. It can decrease or increase reserve ratio & control the advances policy of commercial banks.
6. **Adviser to The Govt.:-** It also acts an adviser to government on financial and economic matters. It provides an expert opinion on matters relating to economic development or to monetary conditions of the country.
7. **Clearing House: -**The Central bank acts as the clearing house for other banks. Under this function the Central bank facilitates the settlement of bills and cheques of other banks by setting off demands of one against other and thus helps the functioning of the banking system so smoothly without actual cash transactions.
8. **Controller of Foreign Exchange: –** The Central bank is responsible for the management of foreign exchange & maintaining external value of taka.

3. Explain the functions of a central bank other than credit control.

The central bank generally performs the following functions:

1. **Bank of Note Issue:** The central bank has the sole monopoly of note issue in almost every country. The currency notes printed and issued by the central bank become unlimited legal tender throughout the country.
2. **Banker, Agent and Adviser to the Government:** The central bank functions as a banker, agent and financial adviser to the government,
   - **a)** As a banker to government, the central bank performs the same functions for the government as a commercial bank performs for its customers. It maintains the accounts of the central as well as state government; it receives deposits from government; it makes short-term advances to the government; it collects cheques and drafts deposited in the government account; it provides foreign exchange resources to the government for repaying external debt or purchasing foreign goods or making other payments,

b) As an Agent to the government, the central bank collects taxes and other payments on behalf of the government. It raises loans from the public and thus manages public debt. It also represents the government in the international financial institutions and conferences,

c) As a financial adviser to the lent, the central bank gives advice to the government on economic, monetary, financial and fiscal ^natters such as deficit financing, devaluation, trade policy, foreign exchange policy, etc.

3. **Bankers' Bank:** The central bank acts as the bankers' bank in three capacities:
   - **a)** Custodian of the cash preserves of the commercial banks;
   - **b)** As the lender of the last resort; and
   - **c)** As clearing agent. In this way, the central bank acts as a friend, philosopher and guide to the commercial banks.

As a custodian of the cash reservesof the commercial banks the central bank maintains the cash reserves of the commercial banks. Every commercial bank has to keep a certain percentage of its cash balances as deposits with the central banks. These cash reserves can be utilised by the commercial banks in times of emergency.

4. **Lender of Last Resort:** As the supreme bank of the country and the bankers' bank, the central bank acts as the lender of the last resort. In other words, in case the commercial banks are not able to meet their financial requirements from other sources, they can, as a last resort, approach the central bank for financial accommodation. The central bank provides financial accommodation to the commercial banks by rediscounting their eligible securities and exchange bills.

5. **Clearing Agent:** As the custodian of the cash reserves of the commercial banks, the central bank acts as the clearing house for these banks. Since all banks have their accounts with the central bank, the central bank can easily settle the claims of various banks against each other with least use of cash. The clearing house function of the central bank has the following advantages.

6. **Controller of Foreign Exchange:** The Central bank is responsible for the management of foreign exchange & maintaining external value of taka.

4. Describe the principles of note issue.

The central bank issues currency on the basis of principles. It follows two principles for note issue. One is currency principles and the other is banking principle.Following are the principles of issuing notes by central bank

1. **Currency Principle:**According to this principle central bank must issue currency against gold reserve or any kinds of reserve. The condition of the reserve is that the central bank can easily

convert the reserves into cash at the time of urgent need. This principle is safer but create inelasticity.

2. **Banking Principle:**According to this principle central bank must issue currency on the basis of demand unlikely to the currency principle. This principle tells us that we calculate how much money flow we need and then we supply the cash on the market. This Principle is very elastic and very risky as it will definitely cause inflation due to the over issuance of the currency.

5. Explain the methods of note issue.

1. Simple Deposit System or Full Reserve System:

- **a)** The monetary authority mainly the central bank must have reserve for issuing currency.
- **b)** Money supply can't be increased more than the reserve even at the time of urgent need.

For Example: A is a country. It has 1000 Tonnes of gold. The monetary authority of that country can issue currency only on the gold. So they follow simple deposit system or full reserve system.

2. Fixed Fiduciary System:

- **a)** The monetary authority issues currency on the gold reserve.
- **b)** Give Permission to issue specific amount of currency without gold reserve.

For Example: B is a country. It has 1000 tonnes of gold. They issued 10% more currency than the reserve they have. So, they follow fixed fiduciary system.

Advantages:

This method enables the central bank to exercise strict control over note issue which is important for controlling inflation or maintaining stability in the value of a currency. So, this method instills confidence among people as it did when it operated in the U.K. in the past.

Disadvantages:

- **(i) Wastage:** Firstly, the system appeared to be uneconomical as it locked up a huge quantity of gold unnecessarily.
- **(ii) Inelasticity:** Secondly, the system proved to be inelastic. Money supply could not be increased easily even when trade and industry expanded.

3. Maximum Fiduciary System:

- **a)** The limit is fixed above the normal requirements.
- **b)** If the limit is too low the currency system becomes inelastic.
- **c)** If the limit is too high, there is a danger of over issue of notes.

For Example: C is a country. It has 1000 tonnes of gold. The central bank issued 100% on gold reserve. But following an urgent need bank set the maximum limit up to which they can issue currency. For example they can issue at most 20% beyond reserve.

Advantages:

(i) **Freedom:** The most important thing to be said in favor of the system is that under it the note-issuing authority enjoys complete freedom (or full discretion) as regards reserve.

(ii) **Economy:** Secondly, the system is economical in the sense that the reserve of gold kept in an unproductive from can be reduced to a minimum.

Disadvantages:

(i) **Inelasticity:** If the upper limit to note issue is fixed at a very low level the system of such issue suffers from inherent inelasticity. This is likely to create problems in periods of expanding economic activity.

(ii) **Inflation:** In contrast, if the limit is fixed at too high a level there is the danger of price inflation — too much money chasing too few goods.

4. **Proportional or Percentage Method:**
   a) Certain proportion of the reserve has to maintain in the form of precious metals like gold.
   b) Remaining part of the reserve is to be kept by Government securities or commercial bills. (Central Bank Buys It)

For Example: D is a country. It issue currency on reserve. But it issue currency on only two types of reserve. One is gold and another is government security. They issue 70% on gold and remaining 30% on government securities and commercial bills. So, they follow percentage method.

Advantages:

(i) **Simplicity:** The first thing to be said in favor of the proportional reserve system is that it is simple to operate.

(ii) **Elasticity:** The second advantage offered by the system is that it is elastic.

Disadvantages:

(i) **Uneconomic nature:** The most important defect of the system is that it is not economical. The reason is that an unproductive gold reserve has to be kept.

(ii) **Multiplier effect:** Secondly, the system creates reverse multiplier effect. In the event of a fall in the central bank's stock of gold, the note-issue contracts more than in proportion. This is likely to have contraction effects on trade and industry. At the end the economy is likely to be in a cumulative deflationary spiral.

(iii) **Inadequacy:** Finally, the system proves to be useless in times of financial crisis because the gold reserve is considerably less than the total note-issue.

If people lose confidence in currency notes in times of crisis, the reserve becomes grossly inadequate to liquidate all the notes. If the system is able to generate confidence among people, the reserve is unnecessary. However, as a general rule, it seems that the existence of a partial reserve is quite sufficient to create confidence among the people at large.

5. **Minimum reserve system:**
   a) Government can issue notes up to any amount against the reserve.
   b) There is a very high risk of inflation.

For example: E is a country. Its central bank permanently fixed set the reserve limit and the volume of the notes has no connection with the amount of the reserve. To meet the ever- increasing demand for currency, government can issue notes up to any amount against the reserve but it is faced with the danger of the inflation.

Advantages:

(i) **Elasticity and flexibility:** The most important advantage of the system that it imparts a high degree of elasticity and flexibility to the system of note-issue. The power to issue notes can be used for deficit spending if and when it is needed for development purposes.

(ii) **Raising resources:** Secondly, the minimum reserve system is particularly suitable for developing countries like India which have relied on the planning system for achieving faster economic growth. The need to raise resources to finance the plans is much more important in such countries than keeping a huge amount of unproductive reserves with the central bank.

Disadvantages:

(i) **Inflationary potential:** Prima facie, the system is highly dangerous because of its inherent inflationary potential. It breeds inflation by making it quite easy for the government to raise reserves by printing paper currency.

(ii) **Public option:** Secondly, the system completely ignores the role of currency reserves in maintaining people's confidence in the monetary system of the country.

Critics point out that the system will prove to be successful only under a strong government (free from corruption) which is determined to follow a sound economic policy and is successful in tilting public opinion in its favor.

Conclusion:

It is very difficult to say which of the above systems of regulating note issue the best is. It all depends on the particular economic circumstances of the country concerned. An ideal system is one which seeks to secure four major objectives: (1) economy, (2) elasticity, (3) safety and (4) stability. The emerging trend today in most developing countries is towards the adoption of a reserve system which is sufficiently flexible to meet their developmental needs.

6. Distinguish between central and commercial bank.

Particular	**Commercial Bank**	**Central Bank**
Function	The main function of a Commercial Bank is to accept deposits from public for the purpose of lending to industry and others.	The Central Bank regulates money supply in the country. It also acts as a banker to the government and to the other banks operating in a country.
Printing of Currency	The Commercial Banks cannot print currency notes and make coins.	The Central has the power to print currency notes.

Acceptance of Deposit	The Commercial Bank accepts deposits from the public.	The Central Bank don't accept any deposit from the public.
Provision of Loans	The Commercial Bank provides loans to the industry and to the public.	The Central Bank provides loans to scheduled banks and financial institutions.
Ownership	Commercial Banks can be owned by private and / or Government agencies. Commercial Banks can be owned by private and / or Government agencies.	Central Bank is owned and controlled by Government of Bangladesh.
Total Number	There are several Commercial Banks currently operating in Bangladesh.	However, there is only one apex Central Bank in Bangladesh.
Framing Monetary Policy	Commercial Banks do not frame monetary policy of the country.	Central Banks frames monetary policy of a country.
Monitory Control	Commercial Bank does not have any control over Central Bank.	Central Bank monitors the working of all commercial banks.
Account Holders	Individuals and organizations are the account holders of Commercial Banks.	Banks and Government are the account holders of a Central Bank.

7. 'Central bank is the lender of the last resort' Explain.

Lender of Last Resort: As the supreme bank of the country and the bankers' bank, the central bank acts as the lender of the last resort. In other words, in case the commercial banks are not able to meet their financial requirements from other sources, they can, as a last resort, approach the central bank for financial accommodation. The central bank provides financial accommodation to the commercial banks by rediscounting their eligible securities and exchange bills.

The main advantages of the central bank's functioning as the lender of the last resort are:

- **a.** It increases the elasticity and liquidity of the whole credit structure of the economy.
- **b.** It enables the commercial banks to carry on their activities even with their limited cash reserves.
- **c.** It provides financial help to the commercial banks in times of emergency.
- **d.** It enables the central bank to exercise its control over banking system of the country.

8. What is the credit control? Describe the methods of credit control used by the central bank of a country.

Credit Control: Credit Control is an important tool used by the central Bank. It is a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy.

There are two methods that the CB uses to control the money supply in the economy-

(1) Qualitative Method: By qualitative methods means the control or management of the uses of bank credit or manner of channelizing of cash and credit in the economy. Tools used under this method are:

a) **Marginal Requirement:** Marginal Requirement of loan can be increased or decreased to control the flow of credit for e.g. – a person mortgages his property worth Rs. 1,00,000 against loan. The bank will give loan of Rs. 80,000 only. The marginal requirement here is 20%. In case the flow of credit has to be increased, the marginal requirement will be lowered.

b) **Rationing of credit:** Under this method there is a maximum limit to loans and advances that can be made, which the commercial banks cannot exceed.

c) **Publicity:** BB uses media for the publicity of its views on the current market condition and its directions that will be required to be implemented by the commercial banks to control the unrest.

d) **Direct Action:** Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by central bank.

e) **Moral persuasion:** This method is also known as "Moral Persuasion" as the method that the Central bank, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit.

(2) Quantitative Method: By Quantitative Credit Control we mean the control of the total quantity of credit. Different tools used under this method are:

a) **Bank Rate:** Bank Rate also known as the Discount Rate is the official minimum rate at which the Central Bank of the country is ready to rediscount approved bills of exchange or lend on approved securities.

   When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes.

   In either case, the central bank accommodates the commercial bank and increases the later cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

b) **Open Market Operations:** Open Market Operations indicate the buying/selling of government securities in the open market to balance the money supply in the economy. During inflation, CB sells the government securities to the commercial banks and other financial institution. This reduces their cash lending and credit creation capacities. Thus, Inflation can be controlled. During recessions, CB purchases government securities from commercial banks and other financial institution. This leaves them with more cash balances for lending and increases their credit creation capacities. Thus, recession can be overcome.

c) **Repo Rates and Reverse Repo Rates:** Repo is a swap deal involving immediate sale of securities and a simultaneous re purchase of those securities at a future date at a predetermined price. Commercial banks and financial institution also park their funds with CB at a certain rate; this rate is called the Reverse Repo Rate. Repo rates and Reverse repo rate used by CB to make liquidity adjustments in the market.

d) **Cash Reserve Ratio:** The money supply in the economy is influenced by the cash reserve ratio. It is the ratio of a bank's time and demand liabilities to be kept in reserve with the CB. A high CRR reduces the flow of money in the economy and is used to control inflation. A low CRR increases the flow of money and is used to overcome recession.

e) **Statutory Liquidity Ratio:** Under SLR, banks have to invest a certain percentage of its time and demand liabilities in Government approved securities. The reduction in SLR enhances the liquidity of commercial banks.

f) **Deployment of Credit:** The CB has taken various measures to deploy credit in different of the economy. The certain percentage of bank credit has been fixed for various sectors like agriculture, export, etc.

9. Why does a central bank regulate credit?

The basic and important needs of Credit Control in the economy are:

1. To encourage the overall growth of the "priority sector" i.e. those sectors of the economy which is recognized by the government as "prioritized
2. To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes.
3. To achieve the objective of controlling "Inflation" as well as "Deflation".
4. To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.

10. What is checking deposit?

Checking deposit: Achecking deposit or checking account is a deposit account held at a financial institution that allows withdrawals and deposits. Also called demand accounts or transactional accounts, checking accounts are very liquid and can be accessed using checks, automated teller machines, and electronic debits, among other methods. A checking account differs from other bank accounts in that it often allows for numerous withdrawals and unlimited deposits, whereas savings accounts sometimes limit both.

11. Describe the advantages a checking account.

1. **Head start on money management:** One of the most significant checking account advantages is its ability to teach young adults about money management and building financial literacy.
2. **Establish Credit:** To build or improve your credit score, maintain your checking account.Keep your account balance above zero, avoid bounced checks and pay your bills on time. These actions demonstrate to lenders and credit reporting agencies that you're responsible with money.
3. **Save Money:** Check cashing service fees, ATM usage fees, and missed bill payment fees add up. Use checking account services like direct deposit and automatic bill pay to avoid fees and save money.
4. **Earn Interest:** Open a high-yield checking account, and your money will grow interest.The minimum balance for an interest-earning account can be very high. However, the interest and other perks of an interest-bearing checking account offer numerous advantages including the ability to grow your account balance with minimal effort.
5. **Secure Your Money:**Leaving your cash in an account means it's less likely to be lost or stolen. You no longer have to hope that envelopes of cash will arrive at your utility or Mortgage Company. And if your checkbook or debit card is lost or stolen, simply stop payment.
6. **Receive Direct Deposit:** Instead of receiving a paper check from your employer, pension provider or other benefits provider, take advantage of direct deposit.Your money is instantly deposited directly into your checking account. You gain faster access to your money, save time and avoid the hassle of visiting your credit union or bank every time you get paid.
7. **Proof of payment:** Pay a bill with cash, and you have no proof of payment during a dispute.On the other hand, a canceled check gives you a proof of payment. Simply show the canceled check or print a copy from your online statement to verify that you've paid your bills and fulfilled your obligations.
8. **Gain Accessibility:** In addition to writing checks, you can manage your money in your checking account via the branch, ATMs, website, and mobile site.Multiple points of access allow you to conveniently and quickly deposit or withdraw money when you need it. Perhaps this is one of the best checking account advantages because it enables you to save time while gaining peace of mind.
9. **Enhance Your Financial Portfolio:** When you open a checking account, you get access to additional financial services provided by the credit union or bank.Services can include loan discounts, access to Certificate of Deposit accounts and financial planning tools.

10. **Future Planning Tool:** Your checking account can help you budget your money, make on-time bill payments and save for big purchases. These actions play a big role in improving your future financial outlook.

12. What is negotiable instrument?

Negotiable instrument: A negotiable instrument is a document that promises its bearer a payment of the specified amount either on furnishing the document to the banker or by a given date.

13. What do you mean by cheque?

Cheque:A cheque is an instrument in writing, containing an unconditional order, signed by the maker, directing a specified banker to pay, on-demand, a certain sum of money only to the order of, a certain person or to the bearer of the instrument.

The person who draws a cheque calls the "drawer". The banker on whom it draws is the "drawee" and the person in whose favour it draws is the "payee".

A cheque is an order by the account holder of the bank directing his banker to pay on demand, the specified amount, to or to the order of the person named therein or to the bearer.

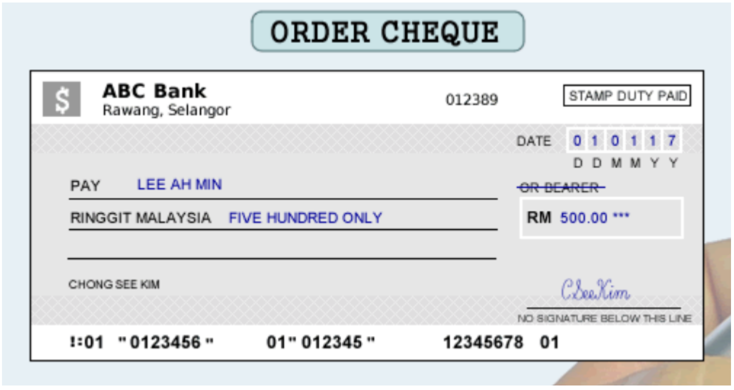
14. What are the different types of cheque?

How many types of cheques are in use depends on elements like who is the issuer and who is the drawee. Based on these essentials, we explore the different types.

1. **Bearer Cheque:** A cheque which is payable to any person who presents it for payment at the bank counter calls 'Bearer cheque'. The banks need no other authorisation from the issuer to be allowed to make the payment.

2. **Order Cheque**: An order cheque is one that is payable to a particular person. In such a cheque the word 'bearer' may cut out or cancel and the word 'order' may write. The payee can transfer an order cheque to someone else by signing his or her name on the back of it.Such cheques can only be issued to the person whose name is mentioned on the cheque, and

the bank will do its background check to authenticate the cheque bearer's identity before releasing the payment.



3. **Crossed Cheque**: Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

   You may have observed cheques with two sloping parallel lines with the words 'a/c payee' written on the top left. That is a crossed cheque. The payment of such cheque does not make over the counter at the bank. It is only credited to the bank account of the payee. These cheques are relatively safe because they can be encashed only at the drawee's bank.

4. **Open cheque/ Uncrossed:** When a cheque is not crossed, it is known as an "Open Cheque" or an "Uncrossed Cheque". The payment of such a cheque can be obtained at the counter of the bank. An open cheque may be a bearer cheque or an order one.

   An open cheque is basically an uncrossed cheque. This cheque can be encashed at any bank, and the payment can be made to the person bearing the cheque. This cheque is transferable from the original payee (the original recipient of the payment) to another payee too. The issuer needs to put his signature on both the front and back of the cheque.

5. **Ante-dated cheques:** Cheque in which the drawer mentions the date earlier to the date of presenting if for payment. For example, a cheque issued on 20th March 2020 may bear a date 5th March 2020.

   If a cheque bears a date earlier than the date on which it is presented to the bank, it is called as "anti-dated cheque". Such a cheque is valid for up to three months from the date of the cheque.
6. **Post-dated Cheque:** Cheque on which drawer mentions a date which is after the date on which it is presented, is called post-dated cheque. For example, if a cheque presented on 10th January 2020 bears a date of 28th March 2020, it is a post-dated cheque. The bank will make payment only on or after 28th March 2020.
7. **Stale Cheque:** A cheque past its validity, six months after the date of being issued, is called a stale cheque. A cheque that issues today must be presented before at the bank for payment within a stipulated period. After expiry of that period, no payment will make and it then calls 'stale cheque'.A stale cheque is not honored by the bank.
8. **Traveler's Cheque:**Foreigners on vacations carry traveler's cheques instead of carrying hard cash, which can be cumbersome. These cheques are issued to them by one bank and can be encashed in the form of currency at a bank located in another location or country. Traveler's cheques do not expire and can be used for future trips.
9. **Self Cheque:**You can identify self cheques by the word 'self' written in the drawee column. Self cheques can only be drawn at the issuer's bank.
10. **Banker's Cheque:**A bank is the issuer of these types of cheques. The bank issues these cheques on behalf of an account holder to make a remittance to another person in the same city. Here the specified amount is debited from the account of the customer, and then, the cheque is issued by the bank. This is the reason banker's cheques are called non-negotiable instruments as there is no room for banks to dishonor these cheques. They are valid for three months. They can be revalidated provided specific conditions are met.

15. What are characters of cheque?

The essential requisites of the cheque are as follows:

1. **Must be in Writing**: The cheque may be written in hand by using ink or ballpoint pen, typed or even it may be printed. But the customer should not use the pencil to fill up the cheque form. Even though other columns may be permitted to be written in hand or printed or typed, the signatures should be made by ink pen or ballpoint pen by the maker.
2. **Must be Unconditional:**The order to pay the amount must be unconditional. If there is any condition imposed to pay the amount to the holder of the cheque then it will not be considered as a cheque. A cheque made payable on the happening of a contingent event is void ab-initio.

3. **Must be drawn on a Specified Banker:** For the validity of a Cheque, it must draw on a specified banker. If there is not mentioned in the cheque about the banker it would not be a valid cheque. In addition to it, it must contain all the three parties i.e. Drawer, Drawee, and Payee.
4. **Certain Sum of Money:** It is one of the essential requirements of the Cheque that it must be payable in money and money only. It is not in terms of the money then it will be a valid one. The sum mentioned in it must be certain.
5. **Certain Payee:** The parties of the Cheque must be certain. There are three parties to the cheque i.e. Drawer, Drawer, and Payee. In a valid Cheque the name of the must contain in other words they must be certain. It must contain an order, which must be unconditional. If any condition were imposed then it would not be a valid cheque.
6. **Date:** In a valid cheque, it must signs by the drawer with date otherwise it would not be a valid cheque. It must write in hand by using ink or ballpoint pen, typed or even it may print as it becomes conclusive proof i.e. presumption under Section 118(b) unless the contrary proves.
7. **Parties to the Cheque:** The maker of a cheque calls the 'Drawer', the person thereby directed to pay calls 'Drawee' and the person named in the instruments, to whom or to whose order the money is by the instrument directly to pays, and calls the "Payee."

   The person entitled in his name to the possession of the cheque and to receive or recover the amount due to calls the "Holder of the cheque."

16. What do you mean by crossing of cheque?

Crossed cheque: Crossing of cheque means drawing two parallel lines on the face of the cheque with or without additional words like "& CO." or "Account Payee" or "Not Negotiable". A crossed cheque cannot be encashed at the cash counter of a bank but it can only be credited to the payee's account.

You may have observed cheques with two sloping parallel lines with the words 'a/c payee' written on the top left. That is a crossed cheque. The payment of such cheque does not make over the counter at the bank. It is only credited to the bank account of the payee. These cheques are relatively safe because they can be encashed only at the drawee's bank.

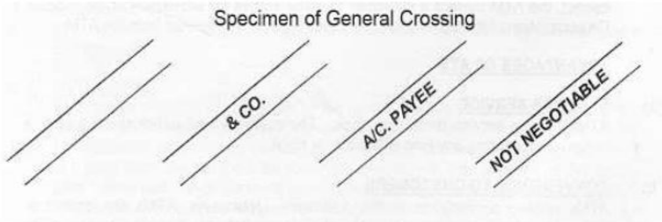
17. Explain the different types of crossing cheque?

a) **General Crossing:**In general crossing, the cheque bears across its face an addition of two parallel transverse lines and/or the addition of words 'and Co.' or 'not negotiable' between them.

   In the case of general crossing on the cheque, the paying banker will pay money to any banker. For the purpose of general crossing two transverse parallel lines at the corner of the cheque are necessary. Thus, in this case, the holder of the cheque or the payee will receive the payment only through a bank account and not over the counter. The words 'and Co.' have no significance as such.

But, the words 'not negotiable' are significant as they restrict the negotiability and thus, in the case of transfer, the transferee will not give a title better than that of a transferor.

Specimen of General Crossing

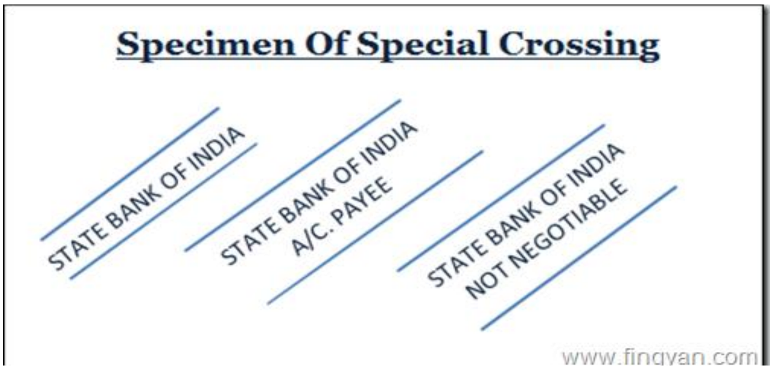


This consists two parallel lines across the face of the cheque. If a cheque is crossed, it can be paid through a bank account and cannot be paid directly to the holder.

b) Special Crossing: In special crossing, the cheque bears across its face an addition of the banker's name, with or without the words 'not negotiable'.

In this case, the paying banker will pay the amount of cheque only to the banker whose name appears in the crossing or to his collecting agent.

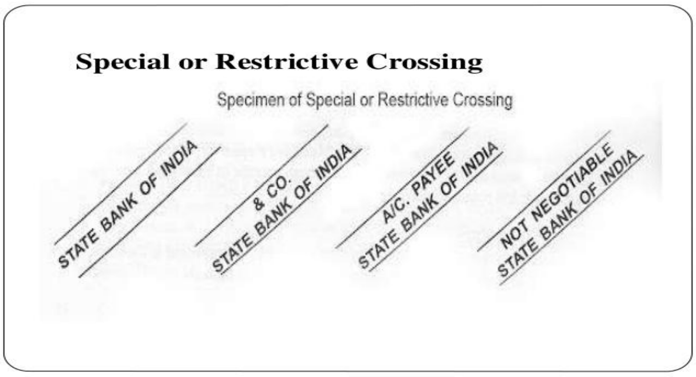
Thus, the paying banker will honor the cheque only when it is ordered through the bank mentioned in the crossing or its agent bank. However, in special crossing two parallel transverse lines are not essential but the name of the banker is most important.



If inside the crossing the name of a bank is written, it is known as special crossing.

If a cheque is crossed specially that cheque has to be deposited in an account of the bank whose name is written inside the crossing.

c) Restrictive Crossing: It directs the collecting banker that he needs to credit the amount of cheque only to the account of the payee, or the party named or his agent.



d) **Non-Negotiable Crossing**: It is when the words 'Not Negotiable' are written between the two parallel transverse lines across the face of the cheque in the case of general crossing or in the case of special crossing along with the name of a banker. The effect of the word Not Negotiable on a crossed cheque is that cheque cannot be negotiable.

Not negotiable crossing: Where the words not negotiable are added inside a crossing they are known as not negotiable crossing.

They eliminate the cheque of its negotiability. Therefore, a person taking a not negotiable crossed cheque cannot give a better title to it than what he has.

That means if a cheque is crossed 'not negotiable', it will prevent a holder from becoming a holder in due course.

18. Who can cross a cheque?

Three parties can cross a cheque, they are:

a) **Drawer:** The drawer can cross the cheque generally or especially.
b) **Holder:** If the drawer has not crossed cheque, the holder can cross it generally or specially.
c) **Banker:** Where a cheque is crossed specially, the collecting banker may cross it again to another banker as it agent for collection, this called doubled special crossing.

19. What is negotiable instrument? Who are the parties to a negotiable instrument?

Negotiable instrument: Where an instrument is by the custom of trade transferable like cash, by delivery, and is alsocapable of being used upon by the person holding it, it is entitled to the name of a negotiable instrument and the property in it pass to a transferee who has taken it for value and in good faith.

Parties of a negotiable instrument

- **a) Drawer:** He is the person who draws the bill or making the order to pay money on his behalf.
- **b) Drawee:** The drawee is the person to whom the order is addressed. A drawee is not liable to pay until he accepts the. Bill, after he accepts the bill he is known as 'acceptor".
- **c) Payee:** Payee is the person to whom the money is to be paid. The payee can be a named or a specified person for example "Pay Nizam or he can be a bearer for example "pay bearer".

20. Difference between negotiability and transferability?

Negotiability: Negotiability usually relates to the quality of the title of the instrument that is passed.All negotiable instruments are transferable, but not all transferable instruments are negotiable.The term ‘negotiability’ and ‘transferability’ are often regarded as being synonymous. This is a common misunderstanding.

Transferability: Transferability relates to the process of passing title in an instrument**.**

Both the Watch and banknotes are transferable, but only the banknote has the quality of negotiability.

21. What are the nature of the negotiable instrument?

Nature of the Negotiable Instrument

- **a)** Be in writing
- **b)** Be signed by the maker or drawer
- **c)** Be an unconditional promise or order to pay
- **d)** State a fixed amount of money
- **e)** Be freely transferable from one to another person
- **f)** Be payable on demand or at a definite time
- **g)** Be payable to order or to bearer

22. What is endorsement? Who are the parties of endorsement?

Endorsement: Writing on the back on a bill of exchange is known as endorsement. The person who signs his name on the back of the bill in known as endorser. The person whose name is written on the back of the bill by the endorser is known as endorsee.

Parties when Endorsing

- **a) Endorser:** Endorser is the person who signs his name on the back of an order bill when he transfers it to another person. An endorser can be the payee or any other holder.
- **b) Endorsee:** Endorsee is the person whose name is written on the back of the bill by the endorser.

c) **The Holder of a Bill:** The Holder is the payee or endorsee of an order bill or the one who is in possession of a bill.

23. Difference between holder and holder in due course.

1. **The Holder of a Bill:** The Holder is the payee or endorsee of an order bill or the one who is in possession of a bill.
2. **Holder in due course:** A holder in due course is a holder who has received a bill of exchange (after endorsing), in good faith (without knowing the defects) by giving valuable consideration, from a person who does not have any title to it or who has a defective title.

   He takes the bill free from all defects. He can therefore, acquire a better title to the bill than that was held by the transferor.

   He should have received that bill without knowing about the lack of title or defective title of the transferor at the time of receiving.

   In addition, there are certain other conditions also should be present to treat him as a holder in due course.

24. Describe the rights of the holder in due course.

a) He can sue in his own name against any prior party to the bill.

b) He takes the bill free from equities.

- He can defeat any defenses arising from defects of title or from the dealings between prior parties to the bill.
- He can therefore, acquire a better title to the bill than that held by his transferor.

c) He can transfer his right to anybody (by negotiation).

25. What do you mean by financial deepening?

Financial Deepening: Financial deepening is a term used often by economic development experts. It refers to the increased provision of financial services with a wider choice of services geared to all levels of society. It also refers to the macro effects of financial deepening on the larger economy. Financial deepening generally means an increased ratio of money supply to GDP or some price index. It refers to liquid money. The more liquid money is available in an economy, the more opportunities exist for continued growth.

26. What do you mean by loan classification?

Loan classification: It is differentiating, grouping or arranging or categorizing of loans and advances based on the perceived risk and other relevant characteristics. Loans are categorized according to their status like substandard, doubtful and bad criteria.

27. What are the loan classification system?

A classified loan is a bank loan that is in danger of default. Classified loans have unpaid interest and principal. Loan can be classified in the following category.

1. **Substandard:** Banks can now classify loans as 'sub-standard' when they are overdue for more than three months and less than nine months.
2. **Doubtful:** Loans overdue for between nine and 12 months can be classified as 'doubtful'.
3. **Bad:** Loans will be classified as bad only once they are overdue more than 12 months.

28. What is the Gold Standard? Explain the Merits of the Gold Standard.

The gold standard is a monetary system where a country's currency or paper money has a value directly linked to gold. With the gold standard, countries agreed to convert paper money into a fixed amount of gold. A country that uses the gold standard sets a fixed price for gold and buys and sells gold at that price. That fixed price is used to determine the value of the currency. For example, if the U.S. sets the price of gold at $500 an ounce, the value of the dollar would be 1/500th of an ounce of gold.

Merits of the Gold Standard: The international gold standard which operated for more than three decades in different forms had certain merits.

1. **Inspired Public Confidence:**The gold standard inspired public confidence because the domestic currency was linked with gold. People knew that gold was an internationally accepted medium of payment, and a standard and a store of value. Therefore, they had full confidence in the paper currency which was convertible into gold bullion or coins or securities.
2. **No outside Interference:**The international gold standard had the merit of working without any outside interference by any other country or international authority.
3. **Automatic Operation:**The gold standard functioned smoothly provided 'the rules of the game" were observed. These rules were not complex but easy to understand and follow for the countries. Thus the gold standard provided a simple and automatic monetary system to the countries of the world.
4. **Stable Exchange Rates:**Another merit of the gold standard was that it maintained stable exchange rates between countries. The exchange rate of every country was fixed in terms of its mint par or the gold value of its currency. The actual exchange rate between gold export and gold import points which took account of the cost of transporting gold from one country to the other. Thus the exchange rate was stable and fluctuations occurred only between the two gold points.

5. **Stable Internal Prices:**The gold standard secured relative stability of internal prices. When there was an inflow of gold, prices rose. And they fell with gold outflow. But when prices rose, exports diminished and imports increased. On the other hand, fall in prices led to expansion of exports and decline in imports.

   These opposite tendencies started gold outflow in the former case and gold inflow in the latter case. Ultimately, price stability was maintained in the trading countries.
6. **Check on Inflation:**Under the gold standard the currency of a country was linked with gold and was convertible into it. As the issuing of currency was backed by specified quantity of gold, there was a limit up to which the authorities could issue currency. For every increase in the amount of currency, gold reserves were also required to be increased to a given extent.

   There was thus an automatic check on the issuing of paper currency by a country. There was also no fear of inflation, because the country could not increase the quantity of money in unlimited quantity. As against this, the present system of managed paper standard, having a fixed gold backing, leads the authorities to issue paper money in unlimited quantities thereby leading to inflation.
7. **Expansion of International Trade:**The gold standard helped in the expansion of international trade. This was made possible by stable exchange rate and stable value of gold in countries. These led to the expansion of international trade and capital movements.

Demerits of the Gold Standard: Despite these merits, the actual working of the gold standard revealed a number of disadvantages which the countries of the world had to experience.**Some of them were as under:**

1. **Fair Weather Standard:**Critics pointed out that the gold standard acted like a fair weather friend. It worked smoothly in normal or peace times but failed during war or economic crises. Its actual working shows that it had to be suspended during the First World War and finally abandoned during the Great Depression. So it was a fair weather standard.
2. **Not Automatic:**It is a misnomer to say that the gold standard worked automatically. In fact, all varieties of it had to be managed by the monetary authority or the central bank. The gold standard did not work automatically. The central bank had to change the bank rate in accordance with gold movements in order to affect the price level.
3. **Exchange Stability at the Cost of Economic Stability:**One of the principal objectives of the gold standard was to maintain exchange stability. But this was always attained at the cost of economic stability. When every time there were gold movement, the internal price level had to be adjusted accordingly in order to maintain exchange stability.

   These price fluctuations led to internal economic instability which ultimately harmed the country. It is for this reason that now-a-days all countries prefer internal price stability to exchange stability.

4. **Anarchy in World Credit Control:**Hawtrey characterised the gold standard as state of anarchy in world credit control. Since the gold standard was a laissez-faire standard and operated only under normal times, it failed miserably in conditions of severe inflation or deflation. During the First World War, inflation spread to all countries of the world.

   On the other hand, when depression started in 1929 it became a worldwide phenomenon. Thus the gold standard by itself was unable to control either inflation or deflation. Rather, it had to sacrifice itself at the altars of inflation and deflation.

5. **Deflationary Bias:**According to Mrs. Joan Robinson, the gold standard had an inherent bias towards deflation. It was in the interest of the gold losing country to deflate prices, but once deflation started it became very difficult to bring revival even with the best efforts of the central bank. The long drawn depression of 1930s proved this fact without any shadow of doubt.
6. **No Independent Policy:**A country on the gold standard could not follow an independent policy of its own. It had to follow that policy which was adopted by all other countries. Failure to follow a common policy along-with other countries mean; abandoning the gold standard. This implied breaking of all trade relations with countries on the gold standard which could be harmful for the country.
7. **Costly Standard:**The gold standard was a costly standard because it was based on gold. Every country had to circulate gold coins or keep gold reserves. As against this the paper standard is much cheaper and also economizes the use of gold.
8. **Rigid Standard:**The gold standard was a rigid standard because for its success the rules of the game had to be observed in letter and spirit. A country could not increase the money supply to finance a war or development activities or any financial emergency without increasing the gold reserves with its central bank.

   If it had to export gold to import the necessary equipment, raw materials and other goods it needed for war or development purposes. It was expected to reduce the internal price level by force in keeping with the rules of the gold standard game. Thus it was a highly rigid standard.

9. **Adverse Effects of Interest Rate Changes:**Under one of the rules of the gold standard, the central bank of the country was required to affect changes in the bank rate in keeping with gold movements. When there was an infl6w of gold, the bank rate was lowered, while it was raised with the outflow of gold. Such changes in interest rates were forced upon trade and industry simply to expand or reduce money income within the country. They, therefore, adversely affected trade and industry.

   Taking into account the various disadvantages of the gold standard enumerated above, it can be concluded that the gold standard was an unnecessary standard. The managed paper standard can secure on all the advantages enjoyed by the gold standard minus its disadvantages. That is why the gold standard is now a thing of the past and is only of academic interest, never to be restored again.

29. What is paper standard? Explain the Merits & Demeritsof the Paper Standard.

Paper Standard:The monetary standard in which paper notes are used as monetary purpose. Which is of course one kind of credit money issued by government commercial bank or central bank in the form of paper currency & inconvertible bank notes. Inconvertible treasury and or bank notes in circulation characterize paper notes standard. The most important feature of paper monetary standard that is the paper money in circulation is not convertible into gold or silver.

It is also referred to as managed standard because the issue of paper money and token coins is managed by the central bank of the country.

Since it has the command of the government, people have to accept it. That is why it is also known as fiat standard.

Merits of the Paper Standard:The paper standard, which is universally used, has a number of merits:

1. **Economical:**The paper standard is cheaper than gold or silver standard. There is no need to waste gold or silver for coinage purposes. Rather precious metals can be used for productive purposes and for making payments to foreign countries. As paper money is not convertible, there is no need to keep gold in the form of reserves. The monetary authorities keep only a fixed quantity of gold in reserve for reasons of security. Thus the paper standard is cheap and economical and even a poor country can easily adopt it.
2. **Elastic:**The paper standard is a highly useful monetary system because it possesses great elasticity. The monetary authority can easily adjust the money supply in accordance with the requirements of the economy. This was not possible under the gold standard. The supply of money can be increased by printing more notes in times of financial emergency, war, and for economic development. It can also be reduced when the economic situation so demands. Thus there is also freedom in the management of the money supply in the economy.
3. **Price Stability:**As a corollary to the above, the paper standard ensures price stability in the country. The monetary authority can stabilize the price level by maintaining equilibrium between demand and supply of money by an appropriate monetary policy.
4. **Free from Cyclical Effects:**The paper standard is free from the effects of business cycles arising in other countries. This merit was not available to other monetary standards, especially

the gold standard, where cyclical movements in one country were automatically passed on to other countries through gold movements.

5. **Full Utilization of Resources:**The gold standard had a deflationary bias whereby the resources of the country remained unutilized. Whenever there was gold outflow prices fell and resources became unemployed. But this is not the case under the paper standard in which the monetary authority can manipulate the monetary policy in order to ensure full utilization of the country's resources.
6. **Equilibrium in Exchange Rate:**One of the merits of the paper standard is that it immediately restores equilibrium in the exchange rate of a country whenever disequilibrium occurs in the demand and supply of its currency in the foreign exchange market.
7. **Portable:**It is very convenient to carry large sums of paper money from one place to another.
8. **Easy to count:**It is easier to count paper money than metallic money.
9. **Easy to store:**It is easier to store large sums of paper money in a small space.
10. **Cognizable:**It is easy to recognize paper notes of different denominations.
11. **Replaceable:**Paper notes of one type and denomination can be easily replaced by printing notes of different types of the same denomination.

Demerits of the Paper Standard: Despite these merits, the paper standard has certain disadvantages:

1. **Inflationary Bias:**One of the serious defect of the paper standard is that it has an inflationary bias. As paper notes are inconvertible, there is every likelihood of the government printing notes in excess of the requirements. Or, the government may deliberately resort to the printing press to meet a financial emergency or war or even to meet ordinary budget deficits. This leads to excess of money supply and to inflation in the country.
2. **Price Stability a Myth:**It has been pointed out in the merits of the paper standard that it leads to price stability. In actuality, price stability is a myth as has been the experience of the majority of countries on the paper standard.
3. **Exchange Instability:**Another disadvantage of this system is that it leads to instability in exchange rates whenever there are large fluctuations in external prices as against internal prices. Such wide and violent fluctuations in exchange rates are harmful for the growth of international trade and capital movements among countries. These have led governments to adopt exchange control measures.
4. **Lacks Confidence:**Paper money lacks confidence as it is not backed by gold reserves.
5. **Lacks Durability:**Paper money has less durability than metallic coins. It can be easily destroyed by fire or insects.
6. **Unstable:**Paper money lacks stability because its supply can be changed easily.
7. **Uncertainty:**Instability in the value of paper money leads to uncertainty in the economy which adversely affects business and economic progress.

8. **Token Money:**Paper money is token money and in the event of de-monetization of notes, they have no intrinsic value and are simply like waste paper.
9. **Not Automatic:**The paper currency standard does not operate automatically. It is a highly managed standard which requires much care and caution on the part of the monetary authority. A little carelessness may bring disaster to the economy.

30. What do you mean by monetary economics?

Monetary economics: It is the branch of economics that studies the different competing theories of money: it provides a framework for analyzing money and considers its functions (such as medium of exchange, store of value and unit of account), and it considers how money, for example fiat currency, can gain acceptance purely because of its convenience as a public good.

This branch also examines the effects of monetary systems, including regulation of money and associated financial institutionsand international aspects.

At around the same time in the medieval Islamic world, a vigorous monetary economy was created during the 7th–12th centuries on the basis of the expanding levels of circulation of a stable high-value currency (the dinar).

In the Indian subcontinent, Sher Shah Suri (1540–1545), introduced a silver coin called a *rupiya*, weighing 178 grams.

The imperial taka was officially introduced by the monetary reforms of Muhammad bin Tughluq, the emperor of the Delhi Sultanate, in 1329.

During the eighteenth century, the concept of banknotes became more common in Europe. David Hume referred to it as "this new invention of paper".

31. What is monetary policy? Discuss the monetary tools how central bank control money supply.

Monetary policy: Monetary policy determines the amount of money that flows through the economy.The monetary policy refers to a regulatory policy whereby the central bank maintains its control over the supply of money to achieve the general economic goals. Main instruments of the monetary policy are: Cash Reserve Ratio, Statutory Liquidity Ratio, Bank Rate, Repo Rate, Reverse Repo Rate, and Open Market Operations.

The instruments of monetary policy are of two types:

1. **Quantitative, general or indirect:**Quantitative Credit Control we mean the control of the total quantity of credit. These method include:
   - **a) Cash reserve ratio (CRR):**The money supply in the economy is influenced by the cash reserve ratio. It is the ratio of a bank's time and demand liabilities to be kept in reserve with the CB. A high CRR reduces the flow of money in the economy and is used to

control inflation. A low CRR increases the flow of money and is used to overcome recession.

b) **Statutory liquidity ratio (SLR):**Under SLR, banks have to invest a certain percentage of its time and demand liabilities in Government approved securities. The reduction in SLR enhances the liquidity of commercial banks.

c) **Open Market Operations:**Open Market Operations indicate the buying/selling of government securities in the open market to balance the money supply in the economy. During inflation, CB sells the government securities to the commercial banks and other financial institution. This reduces their cash lending and credit creation capacities. Thus, Inflation can be controlled. During recessions, CB purchases government securities from commercial banks and other financial institution. This leaves them with more cash balances for lending and increases their credit creation capacities. Thus, recession can be overcome.

d) **Bank Rate:**Bank Rate also known as the Discount Rate is the official minimum rate at which the Central Bank of the country is ready to rediscount approved bills of exchange or lend on approved securities. When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes. In either case, the central bank accommodates the commercial bank and increases the later cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

e) **Repo Rate&Reverse Repo Rate:**Repo is a swap deal involving immediate sale of securities and a simultaneous re purchase of those securities at a future date at a predetermined price. Commercial banks and financial institution also park their funds with CB at a certain rate; this rate is called the Reverse Repo Rate. Repo rates and Reverse repo rate used by CB to make liquidity adjustments in the market.

2. **Qualitative, selective or direct:** The selective credit controls aim at controlling specific types of credit. These method include:
   a) **Change in the margin money:** The result is that the borrowers are given less money in loans against specified securities. For instance, raising the margin requirement to 70% means that the pledger of securities of the value of Rs 10,000 will be given 30% of their

value, i.e. Rs 3,000 as loan. In case of recession in a particular sector, the central bank encourages borrowing by lowering margin requirements.

b) **Direct action:**Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by central bank.

c) **Moral suasion:** This method is also known as "Moral Persuasion" as the method that the Central bank, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit.

32. Describe the objectives of the Monetary Policy.

1. **Price Stability:** Price Stability implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favourable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.
2. **Controlled Expansion Of Bank Credit:** One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement for credit without affecting the output.
3. **Promotion of Fixed Investment:** The aim here is to increase the productivity of investment by restraining non-essential fixed investment.
4. **Restriction of Inventories:** Overfilling of stocks and products becoming outdated due to excess of stock often results is sickness of the unit. To avoid this problem the central monetary authority carries out this essential function of restricting the inventories. The main objective of this policy is to avoid over-stocking and idle money in the organization
5. **Promotion of Exports and Food Procurement Operations:** Monetary policy pays special attention in order to boost exports and facilitate the trade. It is an independent objective of monetary policy.
6. **Desired Distribution of Credit:** Monetary authority has control over the decisions regarding the allocation of credit to priority sector and small borrowers. This policy decides over the specified percentage of credit that is to be allocated to priority sector and small borrowers.
7. **Equitable Distribution of Credit:** The policy of Reserve Bank aims equitable distribution to all sectors of the economy and all social and economic class of people
8. **To Promote Efficiency:** It is another essential aspect where the central banks pay a lot of attention. It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.
9. **Reducing the Rigidity:** RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It

maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

33. Define Cash Reserve Ratio (CRR) & Statutory Liquidity Ratio (SLR)

Cash Reserve Ratio (CRR): Cash reserve Ratio (CRR) is the amount of Cash that the banks have to keep with CB. This Ratio is basically to secure solvency of the bank and to drain out the excessive money from the banks.

For example, if you deposit Tk 100 in your bank, then bank can't use the entire Tk 100 for lending or investment purpose. They have to maintain a certain percentage of their deposits in the form of cash and can use only the remaining amount for lending/investment. This minimum percentage which is determined by the central bank is known as Cash Reserve Ratio.

Thus, when a bank's deposits increase by Tk 100, and if the cash reserve ratio is 4%, the banks will have to hold additional Tk 4 with CB and Bank will be able to use only Tk 96 for investments and lending or credit purpose.

Higher the CRR ratio is, lower will be the amount available with the banks for lending and investment purpose and vice versa. CB uses this tool to curb inflation and to control excessive liquidity in the market.

Statutory Liquidity Ratio (SLR): Apart from keeping a portion of deposits with the CB as cash, banks are also required to maintain a minimum percentage of their net demand and time liabilities with them at the end of every business day, in the form of gold, cash, government bonds or other approved securities. This minimum percentage is called Statutory Liquidity Ratio.

Example: If you deposit Tk. 100/- in bank, CRR being 4% and SLR being 5%, then bank can use 100-4-5= Tk. 91/- for giving loan or for investment purpose.

34. What is the reserve requirement of central bank?

Reserve requirement: The reserve requirement is a central bank regulation that sets the minimum amount of reserves that must be held by a commercial bank with central bank. The minimum reserve is generally determined by the central bank to be no less than a specified percentage of the amount of deposit liabilities the commercial bank owes to its customers.

CRR: CRR stands for Cash Reserve Ratio, and specifies in percentage the money commercial banks need to keep with Bangladesh Bank in the form of cash. This serves as a measure to control inflationary forces in economy. Bangladesh bank (BB) has re-fixed the Cash Reserve Ratio (CRR) at 4.0 per cent on bi-weekly average basis with a provision of minimum 3.5 per cent on a daily basis effective from April 15, 2020.

SLR: Stands for Statutory Liquidity Ratio and is prescribed by Bangladesh Bank as a ratio of cash deposits that banks have to reserve in Bangladesh bank in the form of gold, cash, and other securities approved by Bangladesh Bank. This is done by Bangladesh Bank to regulate growth of credit in economy. Present rate of CRR is 19%.

35. What do you mean by demand for money?

Demand for money: In monetary economics, the demand for money is the desired holding of financial assets in the form of money that is, cash or bank deposits rather than investments.The demand for money is affected by several factors.

Transactions motive: The transactions motive for demanding money arises from the fact that most transactions involve an exchange of money. Because it is necessary to have money available for transactions, money will be demanded. The total number of transactions made in an economy tends to increase over time as income rises. Hence, as income or GDP rises, the transactions demand for money also rises.

Precautionary motive: People often demand money as a precaution against an uncertain future. Unexpected expenses, such as medical or car repair bills, often require *immediate payment.* The need to have money available in such situations is referred to as the precautionary motive for demanding money.

Speculative motive: Money, like other stores of value, is an asset. The demand for an asset depends on both its rate of return and its opportunity cost. Typically, money holdings provide *no* rate of return and often depreciate in value due to inflation. The opportunity cost of holding money is the interest rate that can be earned by lending or investing one's money holdings. The speculative motive for demanding money arises in situations where holding money is perceived to be lessrisky than the alternative of lending the money or investing it in some other asset.

36. What do you mean by commodity money?

Commodity money: Commodity money is a type of good that functions as currency.American colonists used beaver pelts and dried corn in transactions in the 17th and early 18th centuries. Another, more advanced example of commodity money is a precious metal such as gold.

Many items have been historically used as commodity money, including naturally scarce precious metals, conch shells, barley beads, and other things that were considered to have value. The value of commodity money comes from the commodity out of which it is made.

37. What do you mean by representative Money?

Representative money: Representative moneyis any medium of exchange, often printed on paper that represents something of value, but has little or no value of its own (intrinsic value). Unlike some forms of fiat money (which may have no commodity backing), genuine representative money must have something of intrinsic value supporting the face value.

38. What is money? What are the function of money?

Money: Money is an economic unit that functions as a generally recognized medium of exchange for transactional purposes in an economy. Money provides the service of reducing transaction cost, namely the double coincidence of wants. Money originates in the form of a commodity, having a physical property to be adopted by market participants as a medium of exchange.

Functions of Money: Money has three primary functions. It is a medium of exchange, a unit of account, and a store of value:

1. Medium of Exchange: When money is used to intermediate the exchange of goods and services, it is performing a function as a medium of exchange.

2. Unit of Account: It is a standard numerical unit of measurement of market value of goods, services, and other transactions. It is a standard of relative worth and deferred payment, and as such is a necessary prerequisite for the formulation of commercial agreements that involve debt.

3. Store of Value: To act as a store of value, money must be reliably saved, stored, and retrieved. It must be predictably usable as a medium of exchange when it is retrieved. Additionally, the value of money must remain stable over time.
4. Measure of Value: Under the barter system, it is very difficult to measure the value of goods. For example, a horse may be valued as worth five cows or 100 quintals of wheat, or a Maruti car may be equivalent to 10 two- wheelers. Thus one of the disadvantages of the barter system is that any commodity or service has a series of exchange values.
5. The Basis of Credit: Money facilitates loans. Borrowers can use money to obtain goods and services when they are needed most. A newly married couple, for example, would need a lot of money to completely furnish a house at once. They are not required to wait for, say ten years, so as to be able to save enough money to buy costly items like cars, refrigerators, T.V. sets, etc.