Central Bank - R & U - Very Short (Info & Con)

Q.1. Define a central bank.

Ans. A central bank is an apex institution of a country that controls and regulates the cost of credit as well as the flow of credit in the economy with a view to achieving growth and stability.

Q.2. Define bank rate.

Ans. The bank rate is the rate at which the central bank of the country offers loans to the commercial banks by discounting the securities. It is also called discount rate: the rate at which securities are discounted for purpose of loans. It does not involve any collateral.

Q.3. What is repo rate?

Ans. Repo rate (or policy interest rate) is the rate of interest at which commercial banks can raise short-term loans from the central bank by offering 'unencumbered securities' as collateral.

Q.4. What is reverse repo rate?

Ans. Reverse repo rate is the rate of interest at which commercial banks can park their surplus funds with the central bank.

Q.5. Define cash reserve ratio.

Ans. Cash reserve ratio refers to the legal reserve ratio (fixed by the RBI) indicating some percentage of demand deposits of the commercial banks to be kept as cash reserves with RBI.

Q.6. Define statutory liquidity ratio.

Ans. Statutory liquidity ratio refers to liquid assets of the commercial banks which they are required to maintain (on daily basis) as a minimum percentage of their total deposits.

Q.7. Define legal reserve ratio.

Ans. Legal reserve ratio refers to CRR (as well as SLR) as fixed by the central bank and which the commercial banks are required to maintain as a percentage of their demand deposits.

Q.8. What do you mean by open market operations?

Ans. Open market operations refer to the sale and purchase of government securities in the open market by the central bank of the country.

Q.9. Define margin requirement.

Ans. Margin requirement refers to the difference between market value of the security offered for loans and the amount of loans offered by the commercial banks.

Q.10. Define moral suasion.

Ans. Moral suasion refers to persuasion as well as pressure exercised by the central bank on the commercial banks to be restricted and selective in lending during inflation, and to be liberal in lending during deflation.