

Principles of Banking (E.M) - ICOM Part 2 Principles of Banking Chapter 3 Short Questions Preparation

Q1. What is Inter Bank rate.

Ans 1: The rate at which commercial banks and central bank buys and sells foreign currency to each other is called inter bank rate.

Q2. Define central bank according to W.A.Shaw.

Ans 1: "A Central Bank is a bank which controls credit".

Q3. Explain the proportional reserve System of note issue.

Ans 1: Under this system the central bank is required to keep only a certain percentage of notes issued in the form of gold or silver. The reserve proportion is usually from 30% to 40%. It means a central bank issues a note Rs.100 note after keeping gold or silver valing Rs. 30 to 40. This method of note issue is the most affordable in the present time and is widely used all over the world.

Q4. What is the bank rate policy.

Ans 1: Bank rate is the rate at which central bank rediscounts the bills of exchange. In other word we can say that it is the rate of interest at which central bank advances loans to the commercial banks.

Q5. Write down the names of advantages of clearing house.

Ans 1: i- Large credit ii- Saves time and labor iii- Development of trade.

Ans 2: iv- Better services to customers v- No need to keep large money

Ans 3: vi- Effective banking system.

Q6. What is the open market operation.

Ans 1: Buying and selling of government securities by the central bank in the open market is called open market operation.

Q7. What are the various objectives of monetary policy.

Ans 1: i- Price stability ii- Foreign exchange stability iii- Economic development

Ans 2: iv- Increases in investment v- Capital market stability.

Q8. Define Monetary policy.

Ans 1: The monetary policy refers to the measures, which are taken by the Government to control the supply of money in the country.

Q9. What are the various departments of SBP.

Ans 1: i- Note issuing department ii- Foreign exchange department

Ans 2: iii- Research department iv- Banking department

Q10. Describe the principles of Central Bank.

Ans 1: i- Custodian of Banking system.

Ans 2: ii- Free from political iii- Economic Stability
iv- National interest Custodian of credit system.
