

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

Q1. 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.

Q2. 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.

Q3. Explain the fixed fiduciary system of note issue.

Ans 1: Under fixed fiduciary system, the government fixes a fixed amount of notes without keeping any metallic reserve. But this portion of currency must be backed by government securities. Which is called fiduciary limit. The notes issued other than fiduciary limit must be fully backed by gold or silver reserves.

Q4. Give the name of different principles of note issue.

Ans 1: i- Currency Principle

Ans 2: ii- Banking Principle

Q5. Define Central Bank according to Hawtrey.

Ans 1: A central bank is that which is the lender of the last resort.

Q6. Define Clearing house.

Ans 1: According to Dr. Decock, Clearing house is that department of central bank where the representatives of member banks and financial institutions gather to clear their accounts.

Q7. 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- Effectiv banking system.

Q8. Explain the proprtional 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 issue a note Rs.100 note after keeping gold 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.

Q9. In banking what is meant by "Pakistan Mint".

Ans 1: It is the palce where the official coins of the country are made.

Q10. What is the bank rate policy.

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