

Chapter 6: Banking: Commercial Banks & The Central Bank

Question 1

Distinguish between cash reserve ratio and statutory ratio.

Ans: Cash reserve ratio refers to the minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank. On the other hand, statutory liquidity ratio refers to a minimum percentage of net demand and time liabilities in the form of designated liquid assets which commercial banks are required to maintain with themselves.

Question 2

What is meant by margin requirement?

Ans: The difference between the market value of security offered and the value of amount lent is called a margin requirement.

Question 3

Mention any one-factor affecting credit creation by banks.

Ans: Initial Cash Deposits

Question 4

What is a central bank?

Ans: A central bank is an apex body that control, operates, regulates, and directs the entire banking and monetary structure of the country.

Question 5

What are the two essential conditions for a financial institute to become a bank?

Ans: The two essential conditions for a financial institute to become a bank are.

- Accepting deposits
- Advancing of loans

Question 6

What do you mean by 'bank of issue'?

Ans: Bank of issue means a bank which has the legal right to issue currency notes.