

<b>Class: X</b>	<b>Topics:- MONEY AND CREDIT</b>
<b>Subject: NTSE</b>	

## **MONEY:-**

- ✓ Money is a medium of exchange; it allows people to obtain what they need to live.
- ✓ Bartering was one way that people exchanged goods for other goods before money was created.
- ✓ Like gold and other precious metals, money has worth because for most people it represents something valuable.
- ✓ Above all, a money is a unit of account - a socially accepted standard unit with which things are priced.

## **Introduction to Banking:-**

### **BANKS:-**

- Banks are a traditional source of funds for individuals looking to borrow.
- By definition, that's what they do: They take in money (deposits) and then distribute that money in the form of financing products, like mortgages and consumer loans.
- Although banks may pay a little interest on deposited funds they take in, they charge a higher interest rate on the funds they give out, as loans. This spread is essentially how they make their profit.
- Banks offer a variety of ways to borrow money: mortgage products, personal loans, auto loans, construction loans, and other financing products. They also offer opportunities for those looking to refinance an existing loan at a more favorable rate.

**Bank is an institution which accepts deposits and gives loans in return for an interest.**

### **Deposit:**

When bank accepts money from public, it is called a deposit. As the person is depositing his money, the bank gives him some benefits in the form of interest.

**Debit Cards:** Debit cards serve a dual purpose. They allow the account holders to perform banking transactions through the ATM machine such as deposits, cash withdrawals and access account information.

**Credit Cards:** As the name suggests, credit cards are instruments that provide instant credit to the cardholders. When a credit card is used for making a transaction, the amount is not deducted from the bank account but is provided as credit by the issuing bank. The cardholder is provided with a time period; generally a month, to pay back the amount to the bank.

**Prepaid Cards:** These are 'stored value' cards that are charged with a specific amount. The prepaid cardholder is allowed to transact for the value stored in the card. For example, if the card has a value of Rs.5000, once that value is used up for purchases, more value needs to be added to the card.

### **Automated Teller Machine:-**

ATMs are electronic machines, which are operated by a customer himself for availing various banking services such as cash withdrawals, checking account balance, bill payments, transfer of funds etc.

### Cheque:-

Cheques are simply a payment instruction from the account holder to his/her bank directing to pay a certain sum of money to a specific person or to the bearer of the instrument.

### **Banking: Types of Accounts**

**Savings Account:** These are the accounts opened in banks with the key purpose of inculcating the habit of saving among people. Savings accounts allow maximum flexibility to deposit any amount of their liking, thus making it easy and convenient for common people. This kind of account is popular with students, salaried individuals, and senior citizens. Savings accounts earn a nominal interest which is based on the time period the funds are parked in the account.

**Current Account:** These accounts are opened by business owners as they meet their requirement for an unlimited number of cash deposits and withdrawals. The important thing to note in case of current accounts is that they do not earn interest. On the other hand, banks charge interest from account holders for an overdraft facility. When banks allow account holders to withdraw more than their account balance in order to meet their business requirements, it is known as an overdraft.

**Fixed Deposit:** This account type is ideal for depositors who wish to park their funds in the bank for a long period of time. The key benefit of fixed deposit is that it provides a substantially higher rate of interest compared to savings accounts.

**Recurring Deposit:** Very popular with students, recurring deposits are designed to encourage the habit of regular savings amongst people. These deposits too earn interest higher than savings accounts. An example of a Recurring Deposit is when a depositor plans to deposit a fixed amount of Rs.1000 per month for a period of 24 months. On the completion of the 24 months period, the depositor gets back the base amount of Rs. 24,000, along with the interest amount.

### **TYPES OF BANKS IN INDIA:-**

Types	Meaning
Central Bank	<p>The Reserve Bank of India (RBI) is the central bank of the country.</p> <p>It acts as the apex body for monitoring and regulating other banks and financial institutions.</p> <p>It also acts as a banker to the government.</p> <p>RBI plays a key role in laying down the statutory liquidity ratio, cash reserve ratio, reverse repo rate, and repo rate.</p>
Commercial Bank	<p>It performs the functions for the general public with respect to accepting deposits and/or extending loans.</p> <p>Such banks use the loans as investments with the aim to earn profits.</p> <p>Some of the commercial banks in the country are HDFC Bank, State Bank of India, United Bank of India, etc.</p>
Specialized Bank	<p>These banks are formed with the sole purpose of catering to a particular industry or sector.</p> <p>They may focus on import and export or provide financial services to specific sectors of the country.</p> <p>The <a href="#">EXIM Bank</a> is the best example of a specialized bank.</p>
Cooperative Bank	<p>These banks are established under the State Cooperative Societies Act.</p> <p>They provide easy credit to the members of the cooperative banks.</p> <p>One of the basic activities of the cooperative banks is to provide financial resources to the underprivileged population.</p> <p>New India Cooperative Bank Limited, Ahmedabad Mercantile Cooperative Bank, etc. are the examples of cooperative banks in India.</p>

# Commercial Banks in India

The commercial banks in India are further classified into the following:

Types	Meaning
Public Sector Banks	<p>Commercial banks in which the government holds majority of the shares in the bank (more than 50%) are the public sector banks.</p> <p>Punjab National Bank, Canara Bank, Bank of Baroda, etc. are the examples of public sector banks in India</p>
Private Sector Banks	<p>Commercial banks in which individual shareholders possess higher equity stakes are called private sector banks.</p> <p>The functions and activities of these banks are similar to that of public sector banks.</p> <p>A few aspects like the charges imposed, and duration and description of the services of a private sector bank is different from that of public sector banks.</p> <p>Axis Bank, ICICI Bank, HDFC Bank, etc. are the most eminent private sector banks in India.</p>
Small Finance Banks	<p>These banks aim to provide <b>financial inclusion</b> to the underprivileged masses in the country.</p> <p>Such banks also encompass small and micro business units, various entities in the unorganized sector, marginal craftsmen, and small farmers, etc.</p> <p>Janalakshmi Small Finance Bank, Ujjivan Small Finance Bank, Equitas Small Finance Bank are some of the small finance banks in the country.</p>
Regional Rural Banks	<p>These banks have quite specific mandates like providing loans to small farmers and marginal workers, agricultural labourers, small entrepreneurs, craftsmen, etc.</p> <p>Such banks are set up following the recommendations of the Narasimham Committee on Rural Credit.</p> <p>Some of the Regional Rural Banks in India are Pragathi Krishna Gramin Bank, Kerala Gramin Bank, and so on.</p>

## Functions of Commercial Banks

The various functions of the commercial banks include:

**Accepting Deposits** from their customers is one of the chief functions of the commercial banks. These deposits can be accepted from both individuals as well as business organizations. Savings deposits, time deposits, and current deposits are the ways through which funds can be deposited in the commercial banks.

**Providing Loans** is another activity undertaken by the commercial banks. These are the same funds that the bank received by way of deposits. Banks earn profits by using the money deposited by its customers and investing them in loans. However, extending loans may be of different kinds like cash credit, overdraft, discounting bills, advances, etc.

**Fund Remittance** or money transfer is also carried out by commercial banks. The funds can be transferred through various modes like NEFT, draft pay orders, IMPS, RTGS, etc. as per the specified commissions.

**Cheque Issuance** is done by the commercial banks in order to help its customers withdraw funds. Using a cheque, customers can withdraw the money for their own use or for the payee. A cheque can be either bearer or crossed. While a bearer cheque can be encashed over-the-counter, a crossed cheque can be deposited in the payee's account only.

**General Utilities** are also provided by the commercial banks. These include traveller cheques issuance, facility for credit and debit card, locker facility for safe custody, etc.

**Services as an Agent** include collection of cheques, insurance premium payment, drafts and bills, trustee or executor or customers' estate, and so on.

## Role and Functions of the RBI



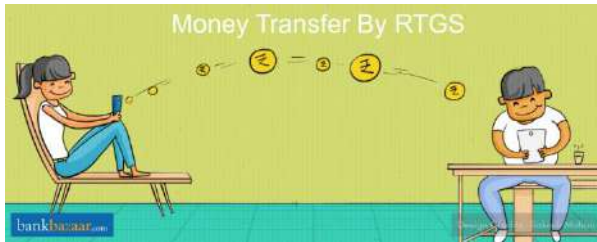
The Reserve Bank of India (RBI) plays a prominent role as the Central Bank of India and has the power to control the monetary situation of the entire country. Apart from the issuance of currency, RBI performs various other important functions that impact the Indian economy in a significant way:

- Implements monetary policies
- Manages foreign exchange reserves
- Acts as banker to the government
- Financial regulation and supervision
- Governs the policies for other banks to follow

## BASICS ON FISCAL AND MONETARY POLICY:-

Monetary Policy	Fiscal Policy
<b>Definition</b>	
It is a financial tool that is used by the central banks in regulating the flow of money and the interest rates in an economy	It is a financial tool that is used by the central government in managing tax revenues and policies related to expenditure for the benefit of the economy
<b>Managed By</b>	
Central Bank of an economy	Ministry of Finance of an economy

## Banking: With New Technology



### RTGS-Real Time Gross Settlement:-

- ✓ It facilitates instant transfer of money from one account to other across cities.
- ✓ RTGS is a real-time settlement system which allows for fast processing of money transfer between any two accounts.
- ✓ 'Real Time' means the processing of instructions at the time they are received; 'Gross Settlement' means that the settlement of funds transfer instructions occurs individually.
- ✓ The payments made via RTGS are final and irrevocable.
- ✓ The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is ₹ 2,00,000/- with no upper limit.



### NEFT-National Electronic Fund Transfer:-

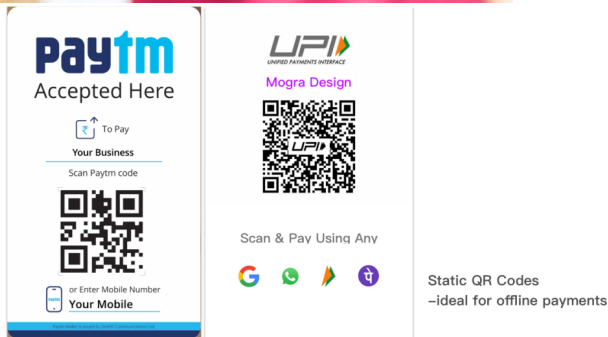
- ✓ National Electronic Funds Transfer (NEFT) is a nation-wide centralised payment system owned and operated by the Reserve Bank of India (RBI).
- ✓ The payment mode enables companies and individuals to transfer funds electronically to other companies and individuals.
- ✓ The account holder needs to register the beneficiary account details such as account holder name, account type (savings etc.), account number and Indian Financial System Code (IFSC) which helps to identify individual bank branches.

## INTERNET BANKING:-

Internet banking allows you to transact on your bank account over the internet using your laptop, tablet or smartphone. When you transfer an amount using Internet Banking, it can be done through different methods, including:

- National Electronic Fund Transfer (NEFT)
- Real-Time Gross Settlement (RTGS)
- Immediate Payment Service (IMPS)

## MOBILE BANKING:- (BANK IN YOUR POCKET)



Most popular banks today offer the facility of Mobile Banking. It is offered in the form of a dedicated and secure app that provides the following key services:

- Checking of the account balance
- Making funds transfer
- Bill payments and card payments
- Service requests such as ordering cheque books

## PRACTICE QUESTIONS:-

1. The monetary policy of India is regulated by

- (A) Allahabad Bank
- (B) Reserve Bank of India
- (C) State Bank of India
- (D) Vijaya Bank

2. Who has the sole right to issue paper currency in India?

- (A) The Government of India
- (B) The Finance Commission
- (C) The Reserve Bank of India
- (D) The Central Bank of India

**3. Money market is a market for:-**

- (A) Short term fund**
- (B) Long term fund**
- (C) Negotiable instruments**
- (D) Sale of shares**

**4. Sales (or Trade) tax is imposed by:-**

- (A) Central Government**
- (B) State Government**
- (C) Local bodies**
- (D) None of these**

**5. Which of the following is an indirect tax?**

- (A) Income tax**
- (B) Trade tax**
- (C) Corporation tax**
- (D) None of these**

**6. The main sources of agricultural finance are:-**

- (A) Commercial Banks**
- (B) Regional Rural Banks**
- (C) Co-operative Banks**
- (D) All of these**

**7. Which of the following tax is imposed by Central Government?**

- (A) Trade tax**
- (B) Entertainment tax**
- (C) Toll tax**
- (D) Corporation tax**

**8. How many languages are there on language panel of Indian Currency note?**

- (A) 15**
- (B) 17**
- (C) 10**
- (D) 12**

**9. Expand the term SWIFT.**

- (A) Society for Worldwide International Financial Telecommunications**
- (B) Society for Worldwide Interbank Financial Telecommunications**
- (C) Society for Worldwide International Financial Transfers**
- (D) Society for Worldwide Interbank Fiscal Transactions**

**10. Which of the following terms is not used in Banking World ?**

- (A) Holding Company**
- (B) Post dated cheque**
- (C) Time deposit**
- (D) Centripetal force**



\*\*\*\*\*