

3. Bankers bank and supervisor- As a Bankers' Bank, it has almost the same relation with other banks in the country as a commercial bank has with its customers. Three observations need to be noted in this context:

(i) The central bank accepts deposits from the commercial banks, and offers them loan.

(ii) The central bank provides 'Clearing House' facility to the commercial banks. It is a cheque clearing facility provided at one centre to all the banks.

4. Lender of the Last Resort- It means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the central bank as a last resort. Central bank advances loan to such a bank against approved securities.

5. Control of Credit: The principal function of the central bank is to control the supply of credit in the economy. It implies increase or decrease in the supply of money in the economy by regulating the 'creation of credit' by the commercial banks. The central bank needs to control the supply of money to cope with the situations of inflation and deflation. During inflation, the supply of money is reduced and during deflation, it is increased.

5. Explain the monetary measure to control money supply.

OR

What measure should be taken by the central bank to control the money supply.

Ans-There are two measure to control the money supply

- ✓ Quantitative measurement
- ✓ Qualitative measurement

Quantitative measurement -:

- Repo Rate
- Open Market Operations
- Legal Reserve Ratio(LLR)

Cash reserve ratio(CRR)

Statuary Liquidity Ratio(SLR)

Qualitative Measurement -:

Margin requirement

Moral Suasion

Direct Action