

# BANK EXAMS

## GENERAL AWARENESS

### Functions of RBI

Functions of RBI are divided under three Major heads. A) Traditional Functions, B) Promotional Functions, C) Supervisory Functions

**A. Traditional Functions include:**

- 1) Issue of Currency Notes
- 2) Banker to the government
- 3) Banker's bank and Lender of the last resort
- 4) Controller of Credit by Deceleration of Monetary Policy
- 5) Custodian of Foreign Exchange Reserves
- 6) Custodian of Cash Reserves of Commercial Banks

**B. Promotional Functions include:**

- 1) Development of Financial System
- 2) Development of Agriculture
- 3) Provision of Small scale Industrial Finance
- 4) Promotion of Export through Refinance
- 5) Provisions of Training
- 6) Collection of Data and Publication of Reports
- 7) Promotion of Banking Habits

**C. Supervisory Functions include:**

- 1) Granting license to banks and renewal of licenses
- 2) Bank Inspections
- 3) Control over NBFIs
- 4) Implementation of the Deposit Insurance Scheme
- 5) Central clearing house of payment and settlement systems

#### Traditional Functions

**Issue of Currency Notes:** RBI has the sole right to issue currency notes. RBI has the sole right to issue bank notes of Rs.2 and above denominations. However one rupee notes and coins issue by the government of India.

**Banker to Government:** RBI acts as banker to government. The Governments receive and disburse large sums of money every day. The receipts of government include mainly taxes, duties and other charges. If these large amounts of transactions are left unregulated and uncoordinated, that may cause instability in the money market. Thus, the central bank acts as the custodian of the Government funds.

- ★ RBI also assists the Government in floating loan and management of public debt, i.e. the debt which the Government owes to the public. It also acts as an agent of Central Government and of all State Governments in India. The Central Bank has the obligation to transact Government business.
- ★ RBI also provides funds to the Government to meet the short-term financial needs by issue of treasury bills. It also provide 'ways and means' advances to the Government. These 'ways and means' advances are normally taken by the State Governments and are wiped out as and when Government receipts are deposited in the accounts with it. The Central Government can raise funds by issuing securities to the Reserve Bank.

**Bankers' Bank and Lender of the Last Resort:** RBI is also called the bankers' bank. It not only keeps deposits of the commercial banks but also lends them in emergencies and for this purpose so it is called the lender of the last resort. The RBI refinances and rediscounts the bills of exchange, promissory notes and other eligible commercial papers to the scheduled commercial banks as per Section 17 of the Reserve Bank of India Act, 1934. The RBI also provides refinance to the scheduled commercial banks for increasing their involvement in the lending to the priority sectors. In order to encourage the co-operative banks, the RBI provides loan in subsidized interest. In any case if the commercial banks require liquidity at a point of time, they approach the RBI for assistance.

**Controller of Credit by Deceleration of Monetary Policy:** RBI is the controller of credit of the economy. It influences the volume of credit created by commercial banks in India. It can do so through monetary policy, the bank rate, statutory reserve ratio, and cash reserve ratio or through open market operations. Traditionally, it has power to increase or decrease the deposit of the scheduled commercial banks required to be deposited with it in order to control the credit creation capacity of banks.

★ When the RBI increase the limit of deposits required making with it, this reduces the liquidity with the banking system resulting in contraction of credit. On the other hand, when the RBI decrease the limit, banks enjoys more liquid cash with the system and result in credit expansion in the economy. According to the Banking Regulation Act, 1949, the Reserve Bank of India can ask any particular bank or the whole banking system not to lend to particular groups or persons on the basis of certain types of securities. Since 1956, selective methods of credit control are increasingly being used by the Reserve Bank.

**Custodian of Foreign Exchange Reserves:** RBI is the custodian of the foreign exchange reserve of the country and has the responsibility to maintain the official rate of exchange. Its vital function is to maintain the external value of the rupee. By regulating and controlling the foreign exchange transactions, it can satisfy this function.

★ Exchange control means exercise of control over the foreign exchange earnings and disbursement of a country. The Foreign Exchange Management Act (FEMA) empowers the RBI to issue direction for the administration of exchange control. For this purpose the RBI has set up separate department called Foreign Exchange Control department.

**Custodian of Cash Reserves of Commercial Banks:** In India or in the world the Commercial banks feel convenient to keep their reserve requirements with the central bank because its notes command the greatest confidence and prestige and the government's banking transactions are conducted by this institution. In fact, the establishment of central banks makes it possible for the banking system to secure the advantages of centralized cash reserves.

★ The significance of Centralized Cash Reserves (CCR) lies in the following facts:

- (a) Centralization of cash reserves in the central bank is a source of great strength to the banking system of the country as it inspires the confidence of the public in the commercial banks.
- (b) Centralized cash reserves can form the basis of a much longer and more elastic credit structure than those scattered among numerous individual commercial banks.

### Model Questions

1. Which of the following is not the major function of RBI?
  - 1) Granting Licensing
  - 2) Declaration of Monetary Policy
  - 3) Design of Debit Cards issued by banks
  - 4) Maintaining Cash Reserves of Banks
  - 5) Issue of Currency Notes

2. Which of the following functions are not being performed by the Reserve Bank of India?
- 1) Regulation of banks in India
  - 2) Foreign currency management in India
  - 3) Regulation of foreign direct investment in India
  - 4) Control and supervision of money supply
  - 5) None of the above
3. When RBI is the lender of the last resort, it means?
- 1) Commercial banks give fund to RBI
  - 2) RBI provide money to people in the case of urgency
  - 3) RBI advances necessary credit
  - 4) It provides the help to foreign nations
  - 5) All of above
4. Which act has given control and supervision powers to RBI over commercial banks?
- 1) Banking Regulation Act, 1949
  - 2) RBI Act, 1934
  - 3) Both Banking Regulation Act, 1949 and RBI Act, 1934
  - 4) Negotiable Instruments Act, 1881
  - 5) Consumer Protection Act, 1986
5. Which section of the Reserve Bank of India Act 1934 authorizes to issue paper currency Rs.2 and above?
- 1) Section 20(1)
  - 2) Section 27(1)
  - 3) Section 22(1)
  - 4) Section 12(1)
  - 5) None
6. Which among the following is main function of Foreign Exchange Control department?
- 1) Granting licenses to the authorized dealers
  - 2) Granting licenses to the money changers
  - 3) Ascertain the foreign exchange reserve position on continuous basis
  - 4) Fixing the rates of foreign currencies against rupee currency
  - 5) All of above
7. To assist RBI and government to allocate credit, National Credit Council was set up in which year? (It discusses and assesses credit priorities on an all India basis.)
- 1) 1981
  - 2) 1947
  - 3) 1999
  - 4) 2012
  - 5) 1967
8. Lead Bank Scheme introduced on the recommendations of which committee report in 1969 on the organizational framework for implementation of the social objectives?
- 1) C.Rangrajan
  - 2) D.R.Gadgil study group
  - 3) T.K.A.Nair study group
  - 4) Manmohan Singh
  - 5) None
9. To assist rehabilitation of sick industrial units or rehabilitation of units, Industrial Reconstruction Corporation of India (IRCI) was established in .....
- 1) 1948
  - 2) 1975
  - 3) 1991
  - 4) 1982
  - 5) 1971

10. In order to promote the interest of the depositors, RBI set up Deposit Insurance and Credit Guarantee Corporation as a subsidiary came into existence in .....
- 1) 1975                      2) 1999                      3) 2000                      4) 1978  
5) None
11. National Clearing Cell (NCC) set up by RBI to introduce mechanized cheque processing and the national clearing of cheques in which year in order to promote the electronic banking?
- 1) 1999                      2) 2001                      3) 1984                      4) 1983  
5) 2000
12. Which of the following function is not a Regulatory and Supervisory function of RBI?
- 1) Powers to regulate the business of banking  
2) Power to conduct audit of the bank  
3) Minting of currency notes  
4) Power to collect and furnish credit information  
5) Power to impose penalty
13. Which bank acts as Government's banker, agent and adviser?
- 1) SBI                      2) SIDBI                      3) RBI                      4) NABARD  
5) None
14. Some specific Acts help RBI to discharge its functions. Which one of the following is not one among them?
- 1) Public Debt Act, 1944  
2) Securities Contract (Regulation) Act, 1956  
3) Indian Coinage Act, 2011  
4) Foreign Exchange Regulation Act, 1973 and Foreign Exchange Management Act, 1999  
5) All of above
15. The list of Acts governing Banking operations given. The correct one is?
- 1) Companies Act, 1956 and 2013  
2) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 / 1980  
3) Negotiable Instruments Act, 1881  
4) Payment and Settlement Systems Act, 2007  
5) All of above

**ANSWERS**

1-3; 2-3; 3-3; 4-3; 5-3; 6-5; 7-5; 8-2; 9-5; 10-4; 11-4; 12-3; 13-3; 14-5; 15-5.

**Writer: A. Veeraswamy**