Unique Paper Code   : 12275303

Name of the Paper   : Money and Banking

Name of the Course   : B.A. (Hons) Economics-CBCS-Generic Elective

Semester   : III

Duration: 2 Hours   Maximum Marks: 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer any four questions.
3. All questions carry equal marks.
4. Answer may be written either in English or Hindi; but the same medium should be used throughout the paper.

1. (a) Suppose the central bank decides to make Rs. 100,000 open market sale. If high powered money (H) = Rs. 500,000/-, required reserve ratio (*rr*) 0.20, excess reserve ratio (*er*) = 0.05 and currency deposit ratio (*cd*) = 0.25, what will be the total currency holdings of the public?
   (b) What factors might cause a bank to change its desired excess reserve ratio?

2. (a) Banks that issue car loans require a much larger down payment on a used car than on a new one. Furthermore, interest rates on used car loans are higher than rates on new cars. Why?
   (b) Explain the risk and return characteristics of options when the option price is Rs. 5 and strike price is Rs. 300 in the following cases:
   (i) In the case where investor has long put option.
   (ii) In the case where investor has short call option.

3. (a) Why was there a need to move from base rate lending system to MCLR system? Discuss in this context the effectiveness of MCLR system in improving the transmission effects of monetary policy.
   (b) Suppose investors prefer one year bonds to two year bonds and will purchase a two year bond only if they expect to receive an additional 2 percent over the return from holding one year bonds. Currently one year bonds yield 6 percent, but investors expect the yield to fall to 2 percent next year.
   (i) Which of the three models of term structure is relevant in this case?
   (ii) What is the yield on a two year bond?
   (iii) Is the yield curve upward sloping, flat or downward sloping?

4. (a) How is Basel – III an improvement over Basel – II? Explain.
   (b) How can the existence of asymmetric information provide a rationale for government regulation of financial market?

5. (a) Several variables can be placed in one or more of the following categories: policy instruments, operating targets, intermediate targets, or final targets. Which of the following variables can be placed in which of these categories and why?
   (i)   Non borrowed reserves
   (ii)   The interest rate
   (iii)   The money stock.

   (b) What are the problems in monetary policy making faced by monetary authorities?

6. Write short notes on any three of the following topics:
   (a) Prime Lending Rate
   (b) Repos and Reverse Repos
   (c) NPA problem in Indian Banking System.
   (d) Definitional Issues with Money