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Topper's Notes

JAIIB Exam

Economic Concepts in Banking

Handwritten Notes

Based on JAIIB 2023 Syllabus and Exam Pattern

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Quick Revision

Economic Concepts Related to Banking.

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* Economics.

The study of how the humans work together to convert limited resources into goods and services to satisfy their wants (unlimited) and how they distribute the same among themselves.

1) Micro Economics.

2) Macro Economics.

* Micro Economics - concentrates on the behaviour and performance of the individual units i.e consumers, family, industry, firms.
• Demand plays key role - in determining the quantity of related goods (complementary goods) and prices - to make a judicious decision regarding the allocation of scarce resources.

* Macro Economics - concentrates on the behaviour and performance of aggregate variables and those issues which affect the whole economy.
Covers major areas of the economy like GDP, unemployment, poverty, general price level, globalisation, etc.

* <u>Economy</u> - is a system whereby goods are produced & exchanged. Without a viable economy, a state will collapse.

1.) Free market economies
2) Command economies
3) Mixed economies

→ <u>Free Market Economies</u> (पूंजीवाद) (Capitalist Economy)

Businesses and individuals have the freedom to pursue their own economic interests, buying and selling goods on a competitive market, which naturally determines a fair price for goods and services.

→ <u>Command Economies.</u>

Also known as centrally planned economy because the central, or national, government plans the economy.
The central government controls the entire economy, allocating resources and dictating prices for goods and services.

→ <u>Mixed Economies:</u>

Combines elements of free market and command economies. Even among free-market states, the government usually takes some action to direct the economy.

* Sectors of Indian Economy

1) Primary
2) Secondary.
3) Tertiary.

→ **Primary Sector.** (Extraction Sector)

It involves taking raw materials. These can be renewable resources, such as fish, wool, wind, etc. Or it can be the use of non-renewable resources such as oil extraction, mining for coal.

→ **Secondary Sector.**

It takes raw materials and combines them to produce a higher value added finished product.

→ **Tertiary Sector.**

It is concerned with the intangible aspect of offering services to consumers and business. This sector accounts for almost 55 % of India's GDP.

* **Demand.** :- It describes a consumer's desire and willingness and ability to pay a price for a specific good or service. Holding all factors constant, an increase in the price of a good or service will decrease demand, and vice versa

* **Utility** - Total satisfaction received from consuming a good or service. The economic utility of a good or service ~~is~~ will directly influence the demand and therefore price of that good or service.

* **The Law of Demand.**

Other things being constant, if the price of a commodity falls, its quantity demanded will rise and if the price of the commodity rises, its quantity demanded will decline

* **Monetary Policy, CRR, SLR, OMO.**

• Monetary Policy Instruments.

Quantitative	Qualitative
1) Reserve Ratios (CRR, SLR)	1) Margin / LTV
2) OMO: Open Market Operations.	2) Consumer Credit Control.
3) Rates. (Repo, RR, Bank Rate, MSF, LAF)	3) Rationing
	4) Moral Suasion
	5) Direct Action

Reserve Ratio.

It is the portion of reservable liabilities that commercial banks must hold onto, rather than lend out or invest.

Cash Reserve Ratio.

An essential monetary policy tool used for controlling the money supply in the economy.

CRR is the minimum percentage of cash deposits (as specified by RBI) that must be maintained by every commercial bank. It is computed as a percentage of the net demand and time liabilities of each bank.

NDTL is reached with total of the savings current and fixed deposit balances.

Statutory Liquidity Ratio.

It is the minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.

Repo Rate. - An amount of interest that is charged by RBI while lending funds to the commercial banks.

→ Reserve Repo Rate : The rate of interest that is provided by RBI while borrowing money from the commercial banks.

* Basics of National Income.

- GDP (Gross Domestic Product) - value of all final goods and services produced within the boundary of a nation during one year period.

GDP = National Private Consumption + Govt. Spending + Gross investment and Trade Balance (Exports (-(Imports)

- NDP (Net Domestic Product) : GDP calculated after adjusting the weight of the value of depreciation

NDP = GDP - Depreciation

- GNP (Gross National Product) : GDP of a country added with its' income from abroad

GNP = GDP + Income from Abroad

- NNP (Net National Product) : GNP after deducting the loss due to depreciation.

NNP = GDP + Income from Abroad - Depreciation

* Conclusion.

Economics in banking sector combines theory and practical approach to bring about dramatic changes in the banking research that in turn helps strengthen a nation's economy.