M. COM. SEMESTER

BANKING AND FINANCE GROUP

BFG 302

BANKING LAWS AND OPERATIONS - II

Yashwantrao Chavan Maharashtra Open University

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SPECIAL GROUP : D - BANKING AND FINANCE GROUP

M. Com (M 17) – Part II
Semester - III

ज्ञानगंगा घरोघरी

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UNIT - 12
MONETARY POLICY AND RESERVE BANK OF INDIA

Structure

12.0 Introduction

Monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general trust in the currency.

Further goals of a monetary policy are usually to contribute to economic growth and stability, to lower unemployment, and to maintain predictable exchange rates with other currencies.

Monetary economics provides insight into how to craft optimal monetary policy.

12.1 Objectives

After reading this unit , you should be able to:

1) Understand the meaning of monetary policy.
2) Understand the objectives of monetary policy.
3) Know the instruments of credit control.
4) Understand the limitations of monetary policy.

12.2 Meaning of Monetary policy

Definition: Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.

Monetary policy is the process by which the government, central bank, or monetary authority of a country controls (i) the supply of money, (ii) availability of money, and (iii) cost of money or rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.

Monetary policy is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more

CHECK YOUR PROGRESS

What is the meaning of Monetary Policy?