6. MONEY MARKETS

ASSIGNMENT SOLUTIONS

PROBLEM NO: 1

Reserve Money = Currency in Circulation + Banker's Deposits with RBI + Other Deposits with RBI

= 15,428.40 + 4,596.18 + 183.30 = 20,207.88 billions

PROBLEM NO: 2

M_3 = Currency with the Public + Demand Deposits with Banks+ Time Deposits with Banks + 'Other' Deposits with Reserve Bank

= 12,637.1 + 14,106.3 + 1,01,489.5 + 210.9 = 1,28,443.8 billions

PROBLEM NO: 3

Required Formulae:

M_4 = M_3 + total deposits with the Post Office Savings Organization (excluding National Savings Certificates).

M_3 = M_1 + net time deposits with the banking system.

M_1 = Currency notes and coins with the people + demand deposits of banks (Current and Saving deposit accounts) + other deposits of the RBI.

Procedure to solve:

M_1 = Currency with the public + Demand Deposits with Banks + Other Deposits of RBI

= 1,12,206.6 + 1,93,300.4 + 614.8 = 3,06,121.8 Crores

M_3 = M_1 + Net Time Deposits with Banks = 3,06,121.8 + 2,67,310.2 = 5,73,432 Crores

M_4 = M_3 + Post Office Savings Deposits - Post Office National Savings Certificates (NSCs)

= 5,73,432+ 277.5 -110.5 = 5,73,599 Crores

PROBLEM NO: 4

Reserve Money = Currency in circulation + Banker's deposits with the RBI+ other deposits with RBI

= 15,428.40 + 4,596.18 + 183.3 = Rs.20,207.88 billions

PROBLEM NO: 5

M_1 = Currency with the public + Demand deposits of banks + other deposits of the RBI

= 15,473.2 + 6,943.1 + 501.2 = 22,917.5 million

PROBLEM NO: 6

High powered money is also known as reserve money which determines the level of liquidity and price level in the economy.

Reserve Money = Net RBI credit to the government + RBI Credit t the commercial sector +RBI's Claims on Bank+ RBI's Net foreign assets+ Government's currency liabilities to the public - RBI's Net monetary liabilities

= 41,561.2 + 18,459.3 + 31,456.2 + 10,456.1 + 21,417.1 - 24,981.2 = 98,368.7 million

PROBLEM NO: 7

M_1 = Currency notes and coins with the people + Demand deposits of banks + Other deposits of the RBI.

= Rs.2,13,279.8 crores + Rs.1,62,374.5 crores + Rs.765.1 crores

M_1 = Rs.3,76,419.4 crores

Note: Post office saving deposits forms a part of M_2 and Time deposits forms a part of M_3. Hence not considered for the calculation of M_1.

PROBLEM NO: 8

Initial deposit (Rs.)	Required Reserve Ratio (RRR)	Credit multiplier (1/RRR)	Total credit (Initial deposit x credit multiplier) (Rs.)
3000	0.05	20	60,000
3000	0.08	12.5	37,500

THE END