ICSE X

MAHESH TUTORIALS I.C.S.E.

Marks : 80

SUBJECT : **ECONOMICS**

Exam No. : MT/ICSE/PRE PRELIM-SET-A-010

Time : 2 hrs.

Model Answer Paper

Section 'A' (40 Marks)

*Attempt **all** questions from this section.*

A.1

(a) The demand for a factor of Production is derived. Factors of production are not demanded for their own sake or for direct satisfaction. They are demanded by the producers to produce commodities which directly satisfy human wants. For example, demand for cloth is a direct demand, but the demand for labour to produce cloth is a derived demand. **[2]**

(b) In a modern economy, production of a good or service involves several processes and each worker (or labourer) specialises in one or two processes. This type of division of labour is called process-based division of labour or complex division of labour. It requires the services of labour of varied abilities/skill. All workers engaged in different processes of the production of a good or service are supposed to work in coordination since the commodity has to pass through these various processes. **[2]**

(c) By capital formation, we mean the increase in the stock of capital goods (e.g. machines, equipments, buildings, means of transport, factories etc.) which are used for more production. In simple words, it refers to net production. It also refers to net addition made to the capital stock of an economy during a time period. In order to make more capital goods, society has to divert its productive resources from the production of consumers goods to the production of capital goods. Hence, it is difficult to raise the rate of capital formation without sacrificing some consumption. **[2]**

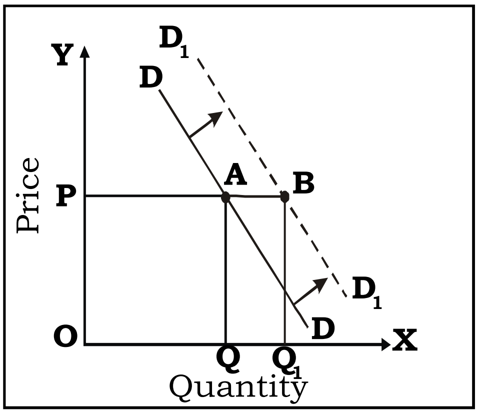
(d) **[2]**

	Normal Goods		Inferior Goods.
1.	Normal goods are those goods the demand for which increases with the increase in income of consumers.	1.	Inferior goods are those goods, the demand for which falls as income of the consumer increases
2.	Here there is a direct relationship between income and demand.	2.	Here, there is an inverse relationship between income and demand.
3.	e.g. Goods like T. V., refridgerator, furniture etc. are normal goods.	3.	Demand for unbranded clothes fall with increase in income. Hence, they are inferior goods.

(e) The demand curve will shift to right in case of increase in demand.

Increase in demand refers to a situation when there is more demand at the same price of the commodity.

Price (Rs)	Demand (Unit)
5	15
5	20
5	25



The above demand schedule shows the change in demand at the same price. It means change in demand is due to change in factors other than the price.

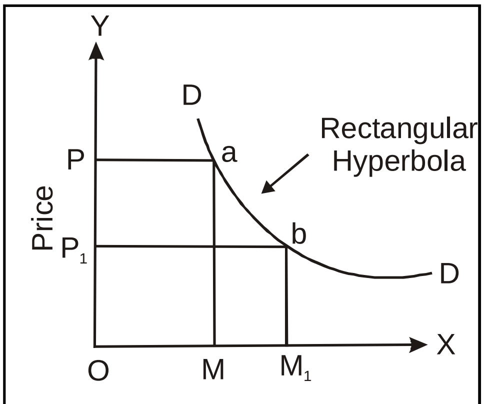
The figure shows how more quantity of the commodity is demanded even at the same price. OP is the original price and OQ, the original demand. The increase in demand OQ_1 here, is not due to fall in price but due to change in factors other than price, such as increase in consumer's income, increase in the price of substitute goods, fall in the price of complementary goods, change in consumer's taste, etc. **[2]**

A.2

(a) Under Unit elastic demand, percentage change in demand is equal to percentage change in price. For instance, if price of milk rises by 20 per cent and consequently its demand falls by 20 per cent, price elasticity of demand will be unitary elastic.

Elasticity of demand will be unity when the demand curve takes the shape of rectangular hyperbola - all rectangular areas under the curve are equal.

This case has been shown in the following diagram. Change in demand and change in price are equal. In the figure, curve DD represents rectangular hyperbola as it extends towards X-axis and Y-axis in a uniform manner without touching them.



Unit Elastic Demand Curve

All points on the demand curve gives equal rectangular areas. For example, areas OPaM and OP_1bM_1 are equal. **[2]**

(b) **The main causes for leftward shift in supply are :**

(a) Rise in Price of Inputs : Increase in price of inputs / factors of production causes rise in production costs. Rise in cost of production tends to reduce the market supply.

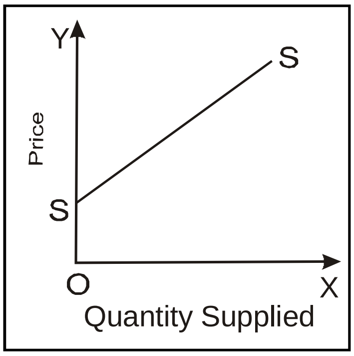
(b) Rise in Prices of other Goods : Rise in the prices of other goods encourage the firm to increase the production of other goods to earn more profit. As a result, production and supply of the given good would decrease.

(c) Increase in Excise Duty : An increase in the rate of excise duty (i.e., tax on production) increase the cost of production. Hence, supply curve shifts to the left.

(d) Use of old and Inferior Technology : If old and inferior technology is used in production, cost of production would rise causing decrease in supply.

(e) Fall in the Number of firms : If the number of firms producing the given product decreases, the market supply of product would fall. **[2]**

(c) Supply of a commodity will be said to be elastic, if the percentage change in quantity supplied exceeds the percentage change in price.
It implies that one per cent changes in price leads to 1.5 per cent changes in supply. In such a case, supply curve meets Y-axis above the point of origin as shown in the figure. **[2]**



(d) The merits of direct taxes are :

(i) **Economy :** Direct taxes are economical in the sense that the cost of collection of these taxes is relatively low, because the same officers who assess small income or properties can also assess large income or properties. Moreover, the tax-payers make the payment of these taxes directly to the government.

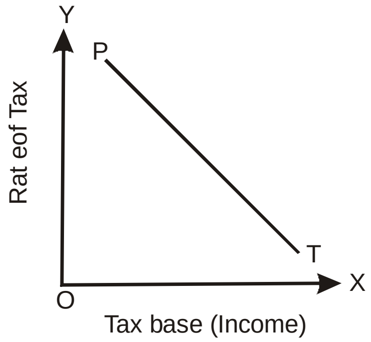
(ii) **Equity :** Direct taxes are based on the principle of ability to pay (or principle of progression). So the burden of a direct tax is equitably distributed on different people and institutions. They fall more heavily on the rich than on the poor. **[2]**

(e) Direct taxes are progressive as they depend upon ability to pay. More the ability to pay, more the taxes, less the ability to pay, less the taxes. In this way, they help to reduce income inequality. **[2]**

A.3

(a) A tax will be regressive when the rates of tax decrease as the tax base (income) inreases. Under the regressive taxation, the total amount of tax increases on a higher income in the absolute sense, but in the relative sense, the tax rate declines on a higher income. Hence, relatively a heavier burden falls upon the poor than on the rich. Therefore, regressive taxes are unjust and inequitable. They do not satisfy the canon of equity. They tend to promote inequalities of income in the society.

Tax base (Income)	Rate of tax (%)	Amount of Tax (₹)
10,000	10%	1000
15,000	9%	1350
20,000	8%	1600

	The given figure shows the case of regressive taxtation. Line PT moves downward to the right indicating that the rate of tax decreases as the tax base increases. 	[2]
(b)	Productive debts are those debts which are used by the government for those projects which yield income. In other words, debt is said to be productive when it is used to finance a project which brings revenue to the government, for example, loans used for the construction of railways, irrigation and power projects and for the establishment of heavy industries such as iron and steel, cement, fertilisers, etc. The income earned from these projects is enough to pay the interest of the loan along with the principal. Thus, productive loans should not be considered as a burden on the government. On the other hand, unproductive loans refer to those loans which are incurred on those projects which do not yield any income. For example, loans taken by the government to finance a war and for covering the budgetary deficit are unproductive loans. Such loans do not add to the productive capacity of the economy and are considered as a dead weight upon the government.	[2]
(c)	The barter system required double coincidence of wants on the part of those who want to exchange goods or services. Double coincidence of wants means the simultaneous fulfillment of mutual wants by buyers and sellers. It is necessary for a person who wishes to trade his good or services to find some other person who is not only willing to buy his good or services, but also possesses that good which the former wants.	[2]
(d)	If a worker does not work on a particular day, his labour for that day is wasted. Labour is, thus, perishable. Labour cannot be stored. The labourer has to sell his labour immediately irrespective of the prices (i.e.., wages) paid to him.	[2]
(e)	Demand pull inflation refers to a situation in which prices rise because the demand for goods and services exceeds their total supply available at current prices. It is also known as 'excess demand inflation.' Demand pull inflation may be defined as a situation where the aggregate demand exceeds the economy's ability to supply the goods and services at the current prices, so that the prices are pulled up by the excess demand.	[2]
A.4 (a)	Evil effects of Inflation on production are as follows: **(i) Misallocation of resources :** Inflation disrupts the smooth working of the price-mechanism. It leads to maladjustments in production.	

Producers divert their resources from the production of essential commodities to non-essential goods (i.e., luxury goods) from which they expect higher profits.

(ii) **Reduction in Saving :** Inflation adversely affects the savings. When prices rise rapidly, more money is now needed to buy the same amount of goods and services than before.Thus it reduces savings and hence investment. **[2]**

(b) Privatisation means gaining ownership control over public enterprises by private individual. It also means that the government opens any particular sector for investment to private sector. The following arguments can be given in favour of privatization of commercial banks :

(i) Commercial banks would now get freedom in making credit decisions. They would make more efforts to attract deposits.

(ii) Privatisation of banks would create a competitive environment in the banking sector which in turn would improve the quality of their services.

(iii) It would reduce the unnecessary political intervention which would help them to raise the efficiency in their working.

(iv) Privatisation of banking would help to improve the profitability. **[2]**

(c) The difference between a loan and an overdraft is that, while in case of loan, the borrower pays interest on the amount outstanding against his account, but in the case of an overdraft, the customer pays interest on the daily balance standing against his account. Further, loans are given against security, while overdraft are made without security. From the borrower's point of view, overdraft is preferable to a loan because, in the case of loan, he will have to pay interest on the full amount of loan sanctioned, whether he uses it fully or not. But in the case of overdraft, he has the facility of borrowing only as much as he requires. **[2]**

(d) Central bank acts as the banker to the banks in four ways : (a) custodian of the cash reserves of the commercial bank (b) as lender of the last resort (c) as clearing agent and (d) as supervisor.

(a) **As a custodian of the cash reserves of the commercial banks,** the central bank maintain the cash reserves of the commercial banks. Every commercial bank has to keep a certain per cent of its cash reserves with the central bank by law.

(b) **As Lender of the Last Resort :** As banker to the banks, the central bank acts as the lender of the last resort. In other words, in case the commercial banks fail to meet their financial requirements from other sources, they can, as a last resort, approach the central bank for loans and advances.

(c) **As Clearing Agent :** Since all banks have their accounts with the central bank, the central bank can easily settle the claims of various banks against each other simply by book entries of transfers from and to their accounts.

(d) **As Supervisor :** The central bank supervises, regulates and controls the commercial banks. This function is done by using its vested powers relating to licensing, branch expansion, liquidity of assets, amalgamation (merger of banks). **[2]**

(e) The consumer should go to consumer courts. The consumer court at the district level, is known as 'District Forum', at state level, is known as 'State Consumer Commission' and at the national level, is known as 'National Consumer Commission'.
The Indian laws have accepted the following as the rights of the consumers :
(i) **Right to Safety :** The consumers have the right to be protected against marketing of goods and services, which are hazardous to life and property.
(ii) **Right to be Informed :** All the consumers have the 'right to be informed' about the particulars of goods and services that they purchase. They have the right to be informed about the quality, quantity, potency, purity, standard and price of goods. [2]

SECTION B (40 MARKS)

*Attempt any **four** questions*

A.5
(a)

Basis	**Product - Based Division of Labour**	**Process - Based Division of Labour**
Meaning	When a labourer does the entire process of production of a single good or service himself or collectively by the members of a family, it is called product - based division of labour	When the process of production of a commodity is split up into different operations and each worker does one or a few operations,it is called process - based division of labour.
Specialisation.	Here,the worker specialises in the production of a commodity or service.	Under it, the worker specialises in a particular process of the production of the commodity.
Nature	It is simple	It is complex.
Basis	It is based on labour - intensive techniques of production.	It is based on capital - intensive techniques.

[5]

Basis	Product - Based Division of Labour	Process - Based Division of Labour
Use	It is generally found in small enterprises.	generally found in large enterprises like corporate or quasi - corporate enterpises
Example	Indian farmer doing all farm activities with the help of his family members collectively.	A modern garment factory where one person takes the measurement, another does the cutting, some sew the clothes, while a few workers button them and others iron them.

(b) An entrepreneur performs many types of functions. We may list them as under.

(i) **Risk-Bearing :** Risk-bearing function is the most important function of an entrepreneur. There is no other factor of production except the entrepreneur, who bears risk of the business. The risk is caused by uncertainties attached to production, investment and profits.

(ii) **Decision Making Functions :** Decision making is an important function of an entrepreneur. He has to take several decisions regarding his business. These may be regarding the following :
- (a) selection of the commodity to be produced.
- (b) selection of design and quality of the product.
- (c) selection of the location of the plant.
- (d) decision of regarding scale of production.
- (e) selection of techniques of production to be employed in the business.

(iii) **Coordination and Supervision :** An entrepreneur not only brings different factors of production together, but also organises them.
- (a) He has to make provision for labour from different places.
- (b) He has to purchase machines, tools, raw materials, etc., to start production.
- (c) He coordinates different factors of production in proper combination, so that cost of production may be reduced to the minimum level.
- (d) He organises the labour. Different workers are given jobs according to their taste and ability.

(iv) **Distributive functions :** The entrepreneur has to decide the reward that each factor of production should get. In deciding this, he has to bear in mind their relative contributions to production.

(v) **Innovative function :** Innovation is considered as an important function of an enterpreneur. Practical applications of invention is called innovation. The entrepreneur has to choose profitable innovations and apply them to earn more and more profits. **[5]**

A.6

(a) The law of demand explains the inverse relationship between the price and quantity demanded of a commodity. According to this law, 'other things being equal', price and quantity demanded of a commodity move in the opposite direction. In other words, when the price of a commodity increases,its demand falls. When price falls, quantity demand increases, provided, factors other than price remain constant.

Assumptions of the law (or other things being equal)

In the statement of law, the phrase 'other things being equal' has been used. By 'other things', we mean factors other than price which influnce the demand. They are:-

(i) There should be no change in consumer's income during the period of consumption.

(ii) There should not be any change in the price of related goods (i. e. substitute or complementary goods)

(iii) There should be no change in consumers' taste and habits.

(iv) Consumers do not expect any change in the price of the commodity in the near future.

(v) No change in population.

Demand Schedule.

Demand schedule shows diferent quantities of a commodity demanded at different prices.

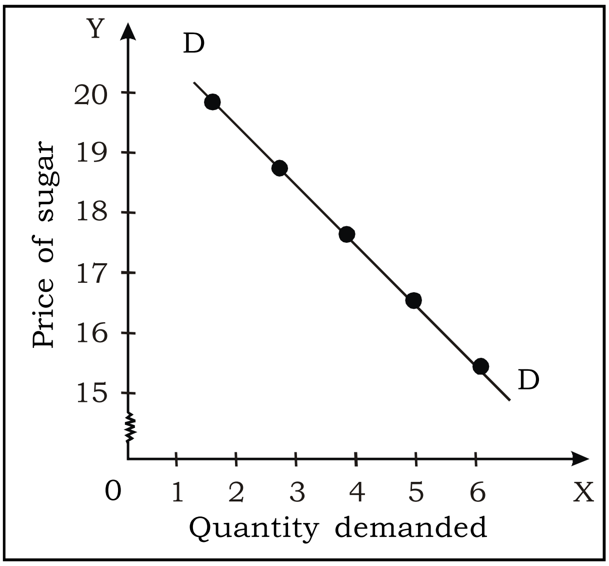
The following table shows that the household will demand more sugar at a lower price, other things being equal. For instance, when price is ₹ 20 per kg, he demands only 1 kg of sugar but, at ₹ 19, he is prepared to buy 2 kg, at ₹ 18 per kg, 3kg sugar and so on. This shows that price and demand are inversely related.

Price of Sugar (per kg.) (per month) (kg)	Quantity of Sugar Demanded
20	1
19	2
18	3
17	4
16	5

Demand Curve

"The curve which shows the relation between the price of a commodity and the amount of that commodity the consumer wishes to purchase, is called demand curve.

When price falls from Rs.20 to Rs.19, demand rises form 1 to 2 kg. of sugar. The demand curve is a negative curve sloping downwards from left to right.



[5]

(b) Elasticity of demand depends upon several factors. Important among them are discussed below.

(i) **Nature of the Commodity :** It is an important determinant of price elasticity. Elasticity of demand for necessities of life, such as foodgrains, medicines, textbooks, edible oil, etc. is very low. In comparison to luxury goods, consumers will buy almost the same quantity of a necessary commodity per unit of time whether its price is somewhat higher or lower. Thus, their demand is inelastic. On the other hand, demand for luxury goods (e.g., air conditioners, big-sized colour TV sets) are elastic. When prices of such commodities rise, some people may avoid purchasing them. Their demand will fall sharply.

(ii) **Availability of Substitutes :** Secondly, demand for a commodity will be more elastic, if its close substitutes are available in the market. For example, demand for Coca-Cola is elastic since its close substitutes like Pepsi, Thums Up, etc. are available at competitive prices. If the price of Coca-Cola goes up, people will be tempted to buy Pepsi or Thums Up or another brand of the commodity. The demand for Coca - Cola will fall down. Reverse will happen, if the price of Coca-Cola falls. Salt, on the other hand, has no close substitutes. Hence, it is considered a necessity. Therefore, its demand will be inelastic.

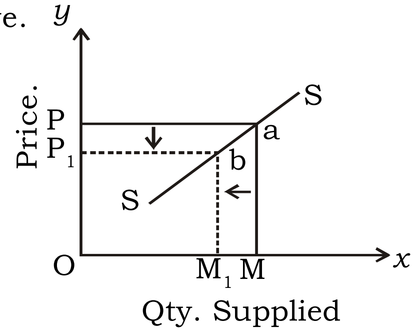
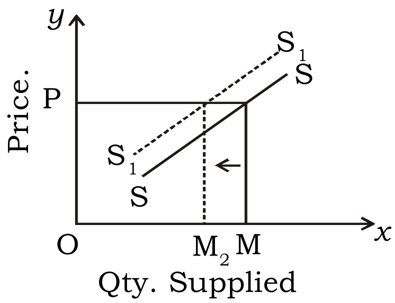
(iii) **Number of Uses :** Thirdly, the elasticity of demand for a commodity also depends upon the number of uses it can be put to. The greater the number of uses of a commodity, the higher is the price elasticity of demand. For example, milk can be used in making sweets, preparing tea, curd, cheese, etc. If its price rises, it will be put to only important uses and, therefore, quantity demanded of milk will fall considerably.

(iv) **Possibility of Postponement :** Fourthly, elasticity of demand also depends upon the possibility of postponing the purchase of a commodity. If the demand for a particular commodity can be postponed for sometime, its demand will be elastic or vice versa. For example, if price of VCR goes up, people try to postpone its purchase and, therefore, its demand will fall significantly.

(v) **Proportion of Total Expenditure Spent :** Fifthly, elasticity of demand for a commodity also depends upon the proportion of income spent by a consumer on that commodity. For example, a consumer spends a very small part of his income on the purchase of match-boxes, boot-polish, inland letters, etc. Therefore, even a large change in their price will not induce him to change his level of demand. But when we take commodities like milk, clothes, etc. where the consumer spends a considerable part of his total income, people may cut the level of consumption and hence their demand will be elastic. **[5]**

A.7
(a)

Contraction in supply.	**Decrease in Supply.**
1. Other things being equal, when supply of a commodity falls as a result of fall in price, it is called contraction in supply.	1. When producers supply less quantity at the same price, it is called as decrease in supply.

Contraction in supply.	Decrease in Supply.
2. Under this, there is a downward movement on the same supply curve. 	2. Under this, there is a leftward shift in the supply curve 
3. When price falls from OP to OP_1, Supply falls from OM to OM_1 depicting contraction in supply.	3. Here, supply curve shifts leftward to S_1S_1 indicating decrease in supply due to factors other than price.
4. It is caused by fall in the price of a commodity.	4. It is caused by following factors:- a) Rise in price of inputs. b) Increase in excise duty. c) Use of old and inferior technology. d) Rise in the price of other goods.

[5]

(b) The following are the main merits of indirect taxes :

(i) **Convenient :** Indirect taxes are more convenient than direct taxes. They are paid in small amounts, and that too at intervals, instead of in lump sum. They are generally included in the price of the commodity and hence not much burden is felt by their payers.

(ii) **Wide coverage :** Indirect taxes can be imposed on a large variety of goods so that most of the persons contribute something to the revenue of the government.

(iii) **Equity :** Indirect taxes can be made equitable by imposing heavy taxes on luxury goods consumed by the rich consumers and low taxes on the essential commodities.

(iv) **Elastic :** Indirect taxes can be made elastic and productive, particularly when they are imposed on essential goods like edible oils, flour sugar, etc, whose demand is inelastic. But, this will go against the canon of equity.

(v) **No Evasion :** Indirect taxes are difficult to be evaded as they are included in the price of the commodity. A person can evade an indirect tax only when he decides not to purchase the taxed commodity.

(vi) **Check on consumption of harming commodities :** Heavy indirect taxation on commodities like wine, opium, etc., serves a great social purpose. It may check their consumption and save the society from their harmful effects.

(vii) **Protection against foreign competition :** By imposing import duties, domestic industries can be protected from foreign competition. When the government wants to protect a particular industry against foreign competition, it imposes heavy import duty on the imported goods.As a result, prices of imported commodities would go up and domestically produced commodities would be available in the market at cheaper price. **[5]**

A.8

(a) The exchange of goods and services for goods is known as barter system.The following difficulties were involved in the barter system of exchange :

(i) Lack of Double Coincidence of Wants : The barter system requires a double coincidence of wants on the part of those who want to exchange goods or services. Double coincidence of wants means the simultaneous fulfillment of mutual wants by buyers and sellers. It is necessary for a person who wishes to trade his good or service to find some other person who is not only willing to buy his good or service, but also possesses that good which the former wants.

(ii) Lack of Common Measure of Value : Even if the two persons who want each other's goods meet by coincidence, the problem arises as to the proportion in which the two goods should be exchanged. The value of a commodity or services means the amount of other goods and services it can be exchanged for, in the market. In the absence of a common measure of value, trade was difficult to be carried out.

(iii) Lack of Divisibility : Another difficulty of barter system relates to the fact that all goods cannot be divided and subdivided. In the absence of a common medium of exchange, a problem arises when a big indivisible commodity is to be exchanged for a smaller commodity. For example, if the price of a horse is equal to five sheep, then a person having a sheep cannot exchange it for the horse because it is not possible to divide the horse into small pieces.

(iv) Problem of Storing Wealth : Under barter system, it is difficult to store value. In the absence of money, the individuals have to store wealth in the form of goods like horses, shoes, wheat, rice, etc. The value of stored commodities may change in the due course of time. These goods may perish after some time. Secondly, it is very expensive to store specific goods for a long time.

(v) Lack of Standard of Deferred (Future) Payments : Another drawback of barter system is that it lacks a standard of deferred payments. So, credit transactions requiring future payments cannot take place smoothly under barter trading.

There are three main problems in this context. These are :

(a) It may create controversy regarding the quality of goods or services to be repaid in future.

(b) The two parties may be unable to agree on the specific goods to be used for repayment.

(c) Both parties run the risk that the value of goods to be repaid may increase or decrease in future. **[5]**

(b) The primary functions of money are :

(i) Medium of Exchange : Medium of exchange is considered to be the first and the most important function of money. As money has the quality of general acceptability, therefore, all the exchanges in an economy take place in terms of money.

While functioning as medium of exchange, money benefits the society in many ways :

(1) It overcomes the difficulties of barter system.

(2) It promotes transactional efficiency in exchange with minimum effort and time. By acting as an intermediary, it increases the ease of trade.

(3) It allows freedom of choice in the sense that a person can use money to buy goods of his choice from people who offer him the best bargain.

(ii) **Measure of Value :** The second fundamental function of money is that it acts as a common measure of value. Money serves as a unit of measurement in terms of which the values of all goods and services are measured and expressed. Money is a useful measuring rod of value only when its own value remains stable. Money also acts as a unit of account.

The secondary functions of money are :

(i) **Standard of Deferred Payments :** When money is generally accepted as a medium of exchange and a unit of value, it naturally becomes the unit in terms of which deferred or future payments are expressed. Here again, money is used as a medium of exchange, but this time the payment is spread over a period of time. Money has successfully performed the function of a standard of deferred payments because, firstly, its value is relatively more stable than that of other commodities. Secondly, the element of durability is higher as compared to other commodities and finally, it possesses the quality of general acceptability.

(ii) **Store of Value :** Money also serves as a store of value. People can now keep their wealth in the form of money. Money allows us to store surplus purchasing power which can be used at any time in future to purchase goods and services. In simple words, money enables people to save a part of their current income for spending in future. It was **Keynes** who first realised the store of value function of money.

(iii) **Transfer of Value :** Money also functions as a means of transferring value. Through money, value can be easily and quickly transferred from one place to another because money is acceptable everywhere. It is because of this function of money, people can buy goods at far off places for the satisfaction of their wants.They can also purchase immovable property at any specific place for money. **[5]**

A.9

(a) Demand pull inflation is mainly caused by the following factors :

(i) **Increase in Money Supply :** The first major cause of demand pull inflation is increase in the supply of money which leads to increase in aggregate demand.

(ii) **Increase in Disposable Income :** When the disposable income of the people increases, it raises their demand for goods and services leading to demand pull inflation.

(iii) Increase in Population : Increase in population is another major cause responsible for rise in prices. Increase in population means increased demand for consumer goods. It increases the aggregate demand for goods and services and puts pressure on the existing supply of goods and services.

(iv) Increase in Exports : An increase in export reduces the stock of goods for home consumption. Supply decreases in relation with demand. Thus, causing inflation. **[5]**

(b) The ways in which consumers are exploited by manufactures and traders are mentioned below :

(i) Underweight and Undermeasurement : The goods being sold in the market are sometimes not measured or weighed correctly.

(ii) Sub-standard Quality : The goods sold are sometimes of sub-standard quality. Selling of medicines beyond their expiry dates and supply of defective home appliances are generally the regular grievances of consumers.

(iii) Duplicate Articles : In the name of genuine parts or goods, fake or duplicate items are being sold to the consumers.

(iv) High Prices : Very often the traders charge a price higher than the prescribed retail price.

(v) Lack of Safety Devices : In order to increase the sale of their products, some producers especially of electrical foods, electronic devices and such other appliances, try to produce things of poor quality without caring for the standard safeguard norms. Such things prove very dangerous for the customers and some are even involved in serious accidents.

(vi) Artificial Scarcity : In order to get more and more profit, certain traders resort to hoarding of things thereby creating artificial scarcity. They sell these things later on at higher prices.

(vii) Poor After-sale Service : Many of the high cost durable items, such as electrical or electronic equipments, home appliances and cars etc. need adequate after-sale care. The supplier does not provide the satisfactory after-sale services despite the necessary payments.

(viii) Adulteration and Impurity : In costly consumer items such as oil, ghee and spices, adulteration is made in order to earn higher profits. This causes heavy monetary loss to the consumers as well as spoil their health.

(ix) Rude Behaviour and Undue Conditions : In matters like LPG gas connection, fixing of a new telephone line, procurement of licensing items etc., consumers are often harassed and undue conditions are put before them. **[5]**

A.10

(a) The methods used by the central bank to influence the total volume of credit in the banking system, without any regard for the use to which it is put, are called quantitative method of credit control.

Bank Rate.

The bank rate is the rate at which a central bank lends money to member commercial banks against approved securities or eligible bills of exchange.

A change in the bank rate leads to change in other interest rates prevailing in the market. In order to control the volume of credit (in the situation of inflation) central bank raises its bank rate. It will increase the cost of borrowing by banks. An increase in the bank rate will then cause the banks to raise the rates of interest at which they lend. This will discourage businessmen and others to borrow from them, leading to reduction in the volume of credit.

The bank rate policy in India has not been effective in controlling the availability and cost of credit because of the following reasons :

(i) Indian money market is underdeveloped.

(ii) Indigenous bankers are not influenced by the bank rate policy of the RBI.

(iii) Interest rates charged by commercial banks are not automatically linked to the bank rate.

Open market operations.

Open market operations refer to the buying and selling of government securities by the central bank from/to the public and banks. When the central bank intends to contract credit during inflation, it sells government securities which are usually purchased either by commercial banks or by their customers. Consequently, cash reserves with the banks are reduced and so does their lending power. On the other hand, when the bank desires to expand credit during deflation in the economy, it starts purchasing such securities. Therefore, the policy of open market operation brings about a change in the total volume of credit by the commercial banks.

Effectiveness in India as an instrument of credit control is limited by the following factors :

(i) The market for government securities is not well organised and developed. For instance, treasury bill market is limited mainly to the RBI itself and commercial banks.

(ii) Open market operation have mainly been used to raise resources for the government (selling government securities) rather than to influence the availability and cost of credit.

Cash Reserve Ratio.

Commercial banks are required under law to keep with central bank a minimum percentage or proportion of their deposits as cash reserves. This is called Cash Reserve Ratio. RBI does not pay interest on funds set aside for CRR requirement. When credit is to be contracted, central bank can increase this ratio and thereby cash resources of the banks can be reduced and banks are forced to contract credit. During inflation, RBI increases the CRR to contract credit and during deflation RBI decreases the CRR to increase the supply of money in the economy.

Statutory Liquidity Ratio.

Under SLR, banks are required to keep a specified percentage of their demand and time deposits. The minimum cash reserves to be kept by the bank with it is known as statutory liquidity ratio. It (SLR) comprises (a) excess reserves (b) government and other approved securities and (c) current account balances with other banks.

India's central bank (the RBI) is empowered to vary this ratio of the minimum cash reserves in the range of 25 per cent to 40 per cent.

	When the central bank has to contract credit, it increases the statutory liquidity ratio. Increase in SLR means larger minimum cash reserves with the commercial banks and less is left for lending. On the other hand, when SLR is reduced, banks now keep less cash reserves with them which raises their lending power.	**[5]**
(b)	The Right to Information act 2005 was passed on June 15, 2005 and came into force on October 13,2005. This RTI Act gives citizens of India access to records of the central and state governments. The act applies to all states and union territories of India except the state of Jammu and Kashmir. Under the provisions of this Act, any citizen of India may request for information from a public authority which is required to reply within 30 days. The act also requires every publlic authority to computerised their records and publish certain categories of information so that citizens need minimum resource to request for information. Under the Act, right to information includes the following. (a) request for information (b) take copies of documents. (c) inspection of documents records and work. (e) Obtaining information in the form of printouts, tapes, floppies, video cassettes or any other electronic mode. **Process :** Under the Act, all authorities covered must appoint Public Information Officer PIO. It is the obligation of PIO to provide information as desired.	**[5]**

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