

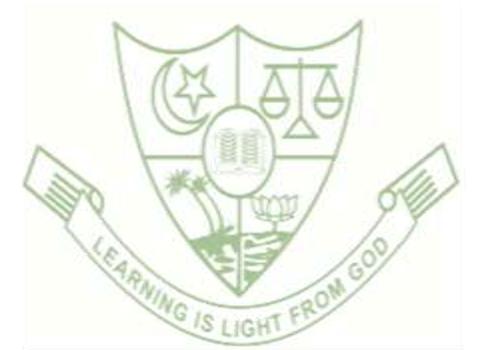


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EDP
ECONOMICS OF BUSINESS ENVIRONMENT

Offered by
THE DEPARTMENT OF ECONOMICS (A.N)

Economic Planning



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- ❖ Concept of Economic Planning,
- ❖ Nature and Scope of Economic Planning,
- ❖ Significance of Economic Planning,
- ❖ Objectives of Economic Planning in India,

Economic Planning

Concept of Economic Planning:

- ❖ Economic Planning. Planning is defined as conceiving, initiating, regulating and controlling economic activity by the state according to set priorities with a view to achieving well-defined objectives within a given time.
- ❖ According to Lionel Robbins, “Strictly speaking, all economic life involves planning... to plan is to act with a purpose, to choose and choice is the essences of economic activity”.
- ❖ According to Barbara woods, “Planning may be defined as the conscious and deliberate choice of economic priorities by some public authorities”



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Economic Planning- Nature & scope

- In the develop nation of the world they plan for economic stability.
- But in the underdeveloped nations, they plan for growth and development.
- The 20th century was an era of planning. Almost every country had some sort of planning. In socialistic countries, planning is almost a religion.
- Every country like the U.S.A and the U.K with a capitalistic system, they have partial planning.



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Economic Planning- Nature & Scope

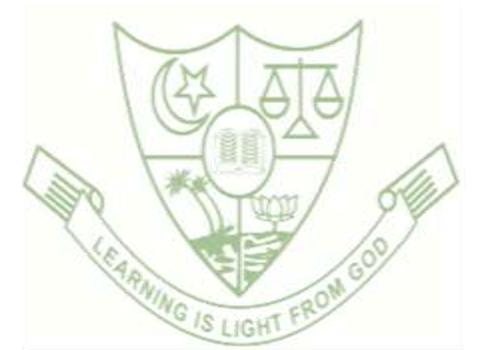
- The 19th century state was a Laissez faire state.
- It followed a policy of non-intervention in economic affairs.
- But the modern state is a welfare state.
- The two World Wars, the Great Depression of 1930s and the success of Planning in former Soviet Russia have underlined the need for planning.
- Planning is a gift of former Soviet Russia to world.
- For it was the 1st country to practice economic planning on a national scale.



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Economic Planning- Nature & Scope

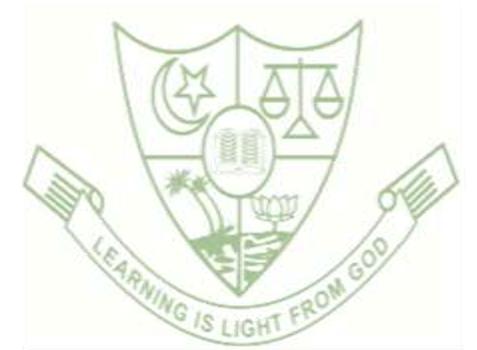
- Many economist today agree that planning is an organized, conscious and continuous attempt to select the basic available alternatives to achieve specific goals.
- Planning involves the economizing of scare recourses.
- Most of the underdeveloped countries of the world become independent only fifty or sixty years back and most of them were very poor at that time.
- So it become the main business of the Government of the newly emergent nations to provide food, clothing and shelter to their people.



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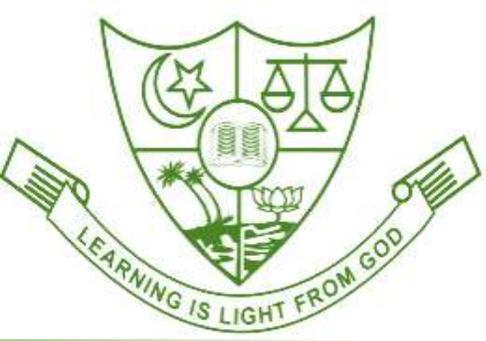
Economic Planning- Nature & Scope

- For that, first of all, they had to increase their national income.
- Since most of them were agricultural countries, they had to evolve some programmes for agricultural development.
- Not only that, they had to industrialize their economies and they had to provide more jobs to their people.
- That means they had to do something for expanding employment opportunities.
- Further, as most of them were wedded to some kind of socialism, they had to reduce inequality of income and wealth.
- All these things, the poor countries attempted to do by means of economic planning.



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Significance of Economic Planning

- Economic planning is often regarded as technique of managing an economy.
- When the structure of an economy becomes complex and subject to rapid change and transformation (due to population growth, discovery of resources, industrialisation, etc.) some sort of advance thinking becomes necessary to resolve that complexity and to prepare the economy for those changes. Such preparation is called planning.



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Significance of Economic Planning

- Most often that not an economic plan is regarded as a programme of action. It may also be taken to mean an instrument for regulating a free private enterprise economy.
- The regulatory measures may vary from country to country.
- They may leave either too much or too little a degree of freedom to private enterprise. This may hamper the working out of the plan.
- Many plans leave their programmes incomplete because they hesitate to exercise their regulatory functions. They are little more than a list of public development projects.



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Significance of Economic Planning

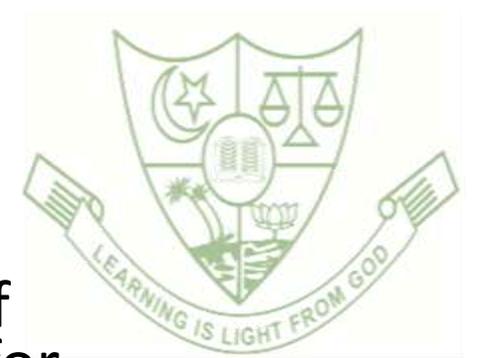
- Many other plans perform their regulatory functions with such seriousness and rigorousness that their programmes of action are completely put at risk.
- In such planned economies any sort of enterprise ceases to exist. The correct plan is one in which a comprehensive and consistent programme of action is sought to be implemented by carefully binding enterprise for the success of the plan.
- It should be noted that a plan is just a programme of action, it is not a guarantee for action. In short, a good plan is one which makes adequate provisions for and ensures that its targets are properly fulfilled.



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Objectives of Economic Planning



1. Economic Development:

- The main objective of Indian planning is to achieve the goal of economic development economic development is necessary for under developed countries because they can solve the problems of general poverty, unemployment and backwardness through it.
- Economic development is concerned with the increase in per capita income and causes behind this increase.
- In order to calculate the economic development of a country, we should take into consideration not only increase in its total production capacity and consumption but also increase in its population. Economic development refers to the raising of the people from inhuman elements like poverty unemployment and ill health etc.

Objectives of Economic Planning

2. Increase Employment:

- Another objective of the plans is better utilization of man power resource and increasing employment opportunities.
- Measures have been taken to provide employment to millions of people during plans. It is estimated that by the end of Tenth Plan (2007) 39 crore people will be employed



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Objectives of Economic Planning

3. Self-Sufficient:

- It has been the objective of the plans that the country becomes self-sufficient regarding food grains and industrial raw material like iron and steel etc.
- Also, growth is to be self sustained for which rates of saving and investment are to be raised. With the completion of Third Plan, Indian economy has reached the take off stage of development.
- The main objective of the Tenth Plan is to get rid of dependence on foreign aid by increasing export trade and developing internal resources.



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Objectives of Economic Planning

4. Economic Stability:

Stability is as important as growth. It implies absence of frequent and excessive occurrence of inflation and deflation. If the price level rises very high or falls very low, many types of structural imbalances are created in the economy.

Economic stability has been one of the objectives of every Five year plan in India. Some rise in prices is inevitable as a result of economic development, but it should not be out of proportions. However, since the beginning of second plan, the prices have been rising rather considerably.



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Objectives of Economic Planning

5. Social Welfare and Services:

- ❖ The objective of the five year plans has been to promote labour welfare, economic development of backward classes and social welfare of the poor people.
- ❖ Development of social services like education, health, technical education, scientific advancement etc. has also been the objective of the Plans.



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Objectives of Economic Planning

6. Regional Development:

- ❖ Different regions of India are not economically equally developed. Punjab, Haryana, Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh etc. are relatively more developed.
- ❖ But U.P., Bihar, Orissa, Nagaland, Meghalaya and H.P. are economically backward. Rapid economic development of backward regions is one of the priorities of five year plans to achieve regional equality.



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Objectives of Economic Planning

7. Comprehensive Development:

- ❖ All round development of the economy is another objective of the five year plans. Development of all economic activities viz. agriculture, industry, transport, power etc. is sought to be simultaneously achieved.
- ❖ First Plan laid emphasis on the development of agriculture. Second plan gave priority to the development of heavy industries. In the Eighth Plan maximum stress was on the development of human resources.
- ❖ 12th Five year plan emphasis on inclusive and faster development.



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Objectives of Economic Planning

8. To Reduce Economic Inequalities:

- ❖ Every Plan has aimed at reducing economic inequalities.
- ❖ Economic inequalities are indicative of exploitation and injustice in the country. It results in making the rich richer and the poor poorer.
- ❖ Several measures have been taken in the plans to achieve the objectives of economic equality specially by way of progressive taxation and reservation of jobs for the economically backward classes.
- ❖ The goal of socialistic pattern of society was set in the second plan mainly to achieve this objective.



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Objectives of Economic Planning

9. Social Justice

- ❖ Another objective of every plan has been to promote social justice.
- ❖ It is possible in two ways, one is to reduce the poverty of the poorest section of the society and the other is to reduce the inequalities of wealth and income.
- ❖ According to Eighth Plan, a person is poor if he spends on consumption less than Rs. 328 per month in rural area and Rs. 454 per month in urban area at 1999-2000 prices.
- ❖ About 26 percent of Indian population lives below poverty line. The tenth plan aims to reduce this to 21%.
- ❖ The expert committee set up by the Planning Commission last year under C Rangarajan, former chairperson of Prime Minister's Economic Advisory Council, has redefined the poverty line. According to the report of the committee, the new poverty line should be Rs 32 in rural areas and Rs 47 in urban areas.
- ❖ As per the Rangarajan committee, the percentage of people below the poverty line in 2011-12 was 30.95 in rural areas and 26.4 in urban areas under the 11th Five Year Plan.



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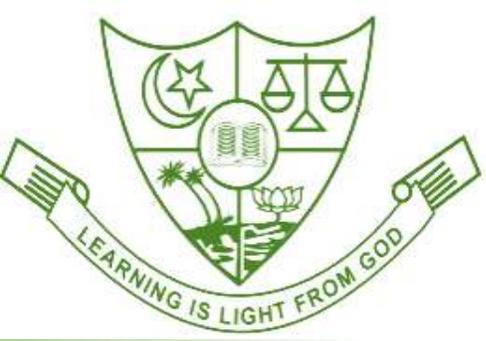
Objectives of Economic Planning

10. Increase in Standard of Living:

The other objective of the plan is to increase the standard of living of the people. Standard of living depends on many factors such as per capita increase in income, price stability, equal distribution of income etc.



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Achievements of Economic Planning



Achievement # 1. Increase in National Income and Per Capita Income:

During planning period national income has increased manifold. The average annual increase in national income was registered to be 1.2 per cent from 1901 to 1947.

This increase was recorded to be 3 per cent from 1950 to 2000-01. Moreover, average annual growth rate of national income was 4 per cent in 1970-80 which, further increased to 5 per cent in 1990-2000.

The per capita income which was 254.7 at current prices in 1950-51 increased to Rs. 1741.3 in 1980-81 to Rs. 5365.3 in 1990-91

Achievements of Economic Planning

Achievement # 2. Development in Agriculture:

Agricultural productivity has also marked an upward trend during the plan period. The production of food-grains which was 510 lakh tones in 1950-51 increased to 176.4 million tones in 1990-91 and further to 211.9 million tones in 2001-02.

Similarly, the production of cotton was 21 lakh bales in 1950-51 and it was expected to be 908 million bales in 1990-91 and further 10.0 million tones in 2001-02.

In the same, the production of sugarcane was expected to be 241.0 million tones in 1990-91 against the 69 lakh tones in 1950-51. It rose to 298.4 million tones in 2001-02.



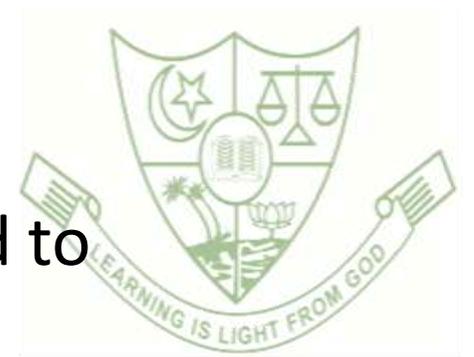
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Achievements of Economic Planning

Achievement # 3. Development of Industry:

- In the first five year plan much of the capital was invested to develop the industry and defence.
- About fifty per cent of the total outlay of the plans was invested for their development.
- As a result, industrial production has increased to a great extent. For instance, the production of cotton cloth which was 4215 million sq. metres in 1950-51.
- It was 31.1 million tones in 2001-02. In the same fashion, the production of sugar was recorded to be 12047 thousand tones in 1990-91 against 1100 thousand tones in 1950-51. It further rose to 15520 thousand tones in 2000-01.



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Achievements of Economic Planning

Achievement # 4. Development of Transport and Communication:

- During the planning period, much attention has been paid towards the development of transport and communication.
- In the first two plans, more than one-fourth of the total outlay was invested on the development of transport and communication.
- In 1990-91, the total length of roads increased to 19.92 lakh kms which increased to 252.2 lakh kms in 1998-99. Similarly route of railway was 63.1 thousand kms in 2001-02 against 53.6 thousand km in 1950-51. The Ninth Plan outlay was 19.6%.



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Achievements of Economic Planning

- **Achievement # 5. Self Reliance:**

- During the last five decades, considerable progress seems to have been made towards the achievement of self reliance.

We are no longer dependent on other countries for the supply of food-grains and a number of agricultural crops. In the same fashion, we have made substantial investment in basic and heavy industries. We are in a position to produce all varieties of basic consumer goods.

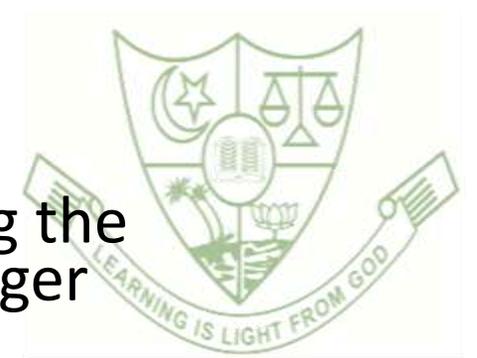
- The emphasis was extended was laid on the development of basic industries like steel, power and chemical fertilizer. Similar stress was given on achieving self sufficiency in different sectors.



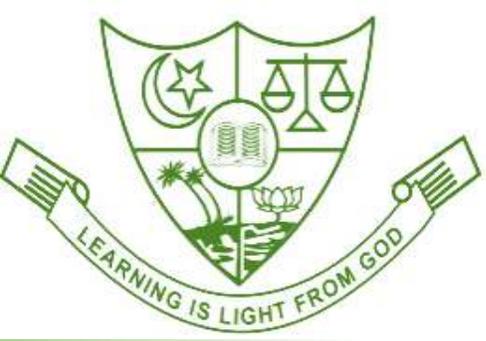
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Achievements of Economic Planning

- **Achievement # 6. Employment Generation:**
- In India, the problem of unemployment is most crucial. During the first Nine plans much emphasis was laid on the creation of larger employment opportunities, such as, emphasis on the establishment of small and cottage industries, spread of technical education, development of self-employment schemes, creation of larger industries, improvement of agriculture and service sectors etc.
- During the first two plans employment opportunities were generated for about 16 million people.
- Again during 1961-71 about 20 million people got fresh job opportunities. Again during 1981-91, about 28 million people were provided job opportunities. But with the huge growth of number of working population, the backlog of unemployment at the end of each plan is increasing at a rapid rate.



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Failures of Economic Planning

1. Rise in Prices:

- Price stability has been one of the objectives of every five year plan in India.
- But almost all the plans witnessed considerable rise in price-level. In first plan, price level came down. In all other plans, the prices recorded a steep rise.
- Price level rose on average by 63 percent in second plan, 5.8% in third plan, 9% in fourth plan, 6.3% in fifth plan, 3.6 percent in Ninth plan and 4% in 2004-05.



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Failures of Economic Planning

2. Increase in unemployment:

- During the period of five year plans, unemployment went on rising. At the end of first five year plan 53 lakh persons were unemployed.
- The present unemployment rate in our country is at 4.9%.
- In India, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force.
- The unemployment rate for the year 2013-14 in rural India is 4.7% whereas in the share of urban India is 5.5% which is comparatively higher.
- The proportion of male and female workforce in rural India is 4.2% and 6.2% respectively while it is 3.9% and 12.4% respectively in Urban India.
- It is interesting to note that rural females are more employed than their urban counterpart whereas urban males lead their rural counterpart.



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Failures of Economic Planning

3. Slow Growth in Production Sector:

- In the five year plan, growth rate of production was slow in many sectors.
- Priority should have been given to the development of agriculture in all the plans, but it was not done.
- Capital intensive industries in urban areas were given priority over small scale industries in the rural areas.
- In agriculture green revolution continues to be confined largely to wheat and rice crop.



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Failures of Economic Planning

4. Inequality in Distribution of Income and Wealth:

- One of the main objectives of five year plans has been to minimize inequality in distribution of income and wealth.
- But the plan witnessed only increase in inequality. Rich Class becomes richer and poor class poorer.
- This inequality is found not only in industrial sector but in agriculture sector also.
- According to one estimate, 3 percent of household own roughly 50 percent of cultivable land.



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Failures of Economic Planning

5. No increase in the Standard of Living:

- All the five year plans of India aimed at raising the standard of living of the people.
- In fact what to say of improving the living standard, even the basic necessities have not yet been provided to the people.
- On an average, a normal healthy person needs 2508 calories of food per day but in India per capita availability of food is 2400 calories.



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UNIT-5

Meaning

- Reserve Bank of India (RBI) is the central bank of the country.

RBI is a statutory body. It is responsible for the printing of currency notes and managing the supply of money in the Indian economy.

- The **RBI was nationalised on January 1, 1949.**



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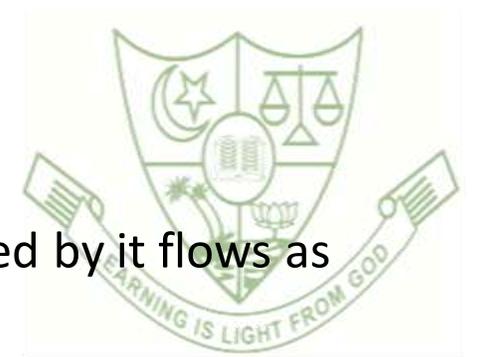
Features & Functions of RBI

1. Regulator of Currency

- The central bank is the issue bank and it has a monopoly note issue. Notes issued by it flows as legal tender money.
- The issue department issues notes and coins to commercial banks and coins are manufactured in the government mint but are placed into flow through the central bank.

2. Banker and Adviser to the Administration

- In general, Central Bank performs as bankers, fiscal agents and advisers to their corresponding law of administration.
- As a banker to the law of administration, the central bank holds the deposit investment of the central and state governments and makes spending on behalf of the law of administration.
- As an adviser, the central bank advises government on fiscal and money matters.



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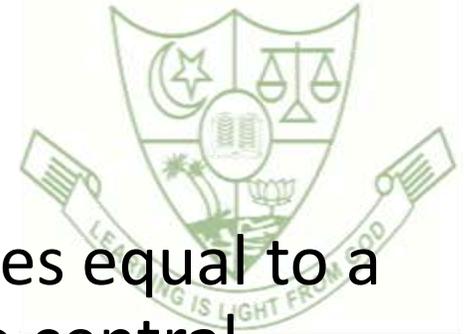
Features & Functions of RBI

3. Guarding of Cash Reserves of Commercial Banks

- Commercial banks are necessitated by law to keep reserves equal to a certain percentage of demand deposits liabilities with the central bank.
- Thus the central bank performs as the guardian of the cash reserves of commercial banks and facilitates in making feasible their transactions.

4. Custodian of Country's Foreign Currency Reserves:

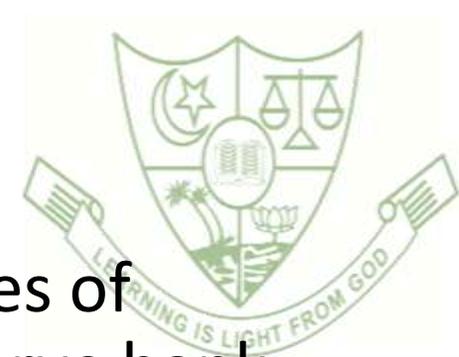
- The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.



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Features & Functions of RBI



5. Lender of Last Resort:

- The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

6. Controller of Credit:

- Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

Credit Control by RBI- Quantitative



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1. Bank rate:

- It is the rate of interest at which central bank lends funds to commercial banks.
- During excess demand , central bank increases bank rate. Borrowings become costly and commercial banks borrow less from central bank.
- During deflation central bank decreases the bank rate. It is cheap to borrow from the central bank or the part of the commercial banks which in turn the Commercial banks also decreases their lending rates.

Credit Control by RBI- Quantitative Method



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2. Open market operations:

- The open market operations means buying and selling of bonds and shares by RBI is open market.
- It is also called buying and selling of government security by the central bank from the public and commercial banks.
- At the time of inflation the RBI starts selling of government securities in the market.
- At the time of deflation the RBI starts buying securities from open market.

Credit Control by RBI-Quantitative Method

3. Cash Reserve Ratio (CRR):

- It is the ratio of bank deposits that commercial bank has to keep with the central bank.
- At the time of inflation the RBI increases the rate of CRR, similarly at the time of deflation RBI decreases the rate of CRR.

4. Statutory Liquidity Ratio (SLR):

- Every bank required to maintain a fixed percentage of its assets in the form of cash or other liquid assets called SLR.
- At the time of inflation the RBI increases the SLR, similarly at the time of deflation RBI decreases the rate of SLR.



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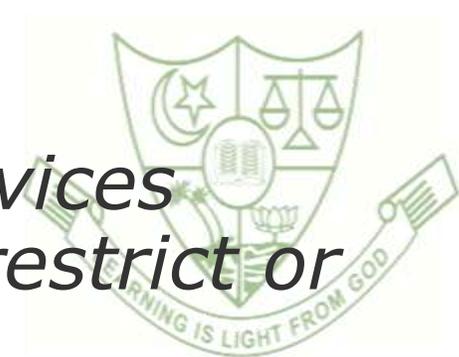
Credit Control by RBI-Qualitative Method

1. Margin requirements:

- It is the difference between the market value of loan and the security value of loan.
- At the time of inflation the margin requirement value decreases by RBI for discouraging people and commercial banks for approaching more and more amount of loan.
- On the other hand at the time of deflation the RBI increases the value of margin just to encourage issuing of more amount of loan to the commercial banks and general public.



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Credit Control by RBI-Qualitative Method

2. Moral suasion: It refers to written or oral advices given by central bank to commercial banks to restrict or expand credit.

3. Direct Action: Sometimes the RBI directly takes action against the commercial banks. It takes action to such type of commercial banks who are not following the rules regulation of RBI. It cancels their registration or nationalization of commercial banks.

4. Rationing of credit: It is the related to limiting the amount of credit, which is issued by all the commercial banks. RBI fixes the size of issuing the credit according to the requirement of the country.



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Role of RBI in Economic Development

1. Expanding currency supply for financing development plans:

- The Reserve Bank of India has been assisting the Government of India by expanding the supply of currency.
- But, the supply of currency (and credit) is to be properly regulated for enabling the economy achieve faster growth with reasonable price stability.

2. Resource mobilization and supply of adequate credit:

- The mobilization of resources for development purposes is an essential requirement in a developing economy.
- In such an economy, the central bank can assist the government in mobilising domestic resources for financing the development plans through such activities as the floating of new loans of the government, strengthening the banking structure for mobilizing resources even from the rural areas, and so on.



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3. Increasing the flow of bank credit to the priority sectors:

- The formulation of development priorities is an essential characteristic of development planning.
- The central bank of a developing country is to frame its monetary and credit policy in such a fashion that larger and desired quantities of bank credit go to the priority sectors, such as agriculture, cooperatives, small industries and export trade.

4. Controlling inflation :

- In a developing economy various traditional and new measures of monetary controls, especially selective credit controls, are used to check the inflationary rise in prices.
- The measures like higher margin requirements, CRR and statutory liquidity ratios, Bank rates and lending rates, etc. may be adopted by the central bank, as done by the Reserve Bank of India, for controlling inflation.



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5. Creation of a strong infrastructure and expansion of institutional facilities for agricultural and industrial finance:

- the Reserve Bank of India has taken active steps in reorganizing the rural credit structure through co-operatives, the National Bank for Agriculture and Rural Development (NABARD), regional rural banks, lead banks.
- Similarly in developing institutional facilities for industrial finance it played a very significant role by establishing some specialized institutions like the Industrial Finance Corporation, the Industrial Development Bank, etc.

6. Operating exchange control:

- Foreign exchange constraint is often found to be a serious obstacle to the growth of a developing economy.
- Accordingly, the central bank in such an economy can serve the best cause of growth by making proper arrangement



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7. Development oriented monetary policy:

- The central bank in a developing economy can formulate a development-oriented monetary and credit policy like the policy of controlled expansion of bank credit as followed by the Reserve Bank of India for promoting economic growth with stability.

8. Developing sound banking structure:

- The central bank in a developing economy can also take various positive steps and adopt various measures such as deposit insurance, nationalisation of banks, and so on for building a sound banking structure, or financial infrastructure which is essential for achieving faster economic growth.



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9. Advising government on plan matters:

- The central bank in a developing economy like India, can also advise the government not only on banking and financial matters but also on a wide range of economic issues related to national economic planning and resource mobilisation.
- Besides, a central bank should keep a strict watch over any possible sign of misdirection of the economy and accordingly it should give timely and proper advice to the government.

10. Economic surveys and collecting basic statistics:

- Finally, the central bank in a developing economy like the R.B.I, often conduct surveys on various uncovered sectors and supply valuable data on national economic plans and policies to the government for formulating development plans.



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