Q86

With reference to Indian economy, consider the following: 1. Bank rate 2. Open market operations 3. Public debt 4. Public Revenue Which of the above is/are component/components of Monetary Policy? (a) 1 only (b) 2, 3 and 4 (c) 1 and 2 (d) 1, 3 and 4 Official key: C.

UPSC Civil Services Prelims 2015 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Bank rate is a monetary-policy instrument, but open market operations are also monetary policy. '1 only' is incomplete. This option is not the key.

(b)

Open market operations are monetary, but public debt and public revenue are fiscal. This option therefore mixes policy boxes and is not the key.

(c) Official key

Bank rate and open market operations are standard monetary-policy tools of the central bank. Public debt and public revenue belong to fiscal policy. Hence 1 and 2 is the official key.

(d)

This set keeps bank rate but adds fiscal items 3 and 4 and drops OMOs. It is not the key.

Summary

Official key is (c) 1 and 2. Monetary policy works through interest rates, liquidity and credit (bank rate, repo, OMO, CRR, SLR). Public debt and public revenue are budget quantities. Mixing fiscal aggregates into monetary policy is the trap. Only bank rate and OMOs qualify among the four.

Related possible facts

These can be asked in a future Prelims paper.

Bank rate

RBI's long-term penal/refinance rate; a classical instrument

OMO

Sale or purchase of government securities to adjust liquidity

Repo / LAF

Modern operating instruments alongside bank rate

Fiscal policy

Tax, expenditure, borrowing; public revenue and public debt

Monetary Policy Committee

Sets the policy repo rate (post-2016 statutory MPC)