Q57

If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? 1. Cut and optimise the Statutory Liquidity Ratio 2. Increase the Marginal Standing Facility Rate 3. Cut the Bank Rate and Repo Rate Select the correct answer using the code given below: (a) 1 and 2 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3 Official key: B.

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Explanation

(a)

1 and 2 only. Cutting SLR is expansionary; it would do that. Raising MSF is the thing it would not do.

(b) Official key

2 only. An expansionist RBI would not raise the MSF rate. It would cut SLR (or not hike it) and cut Bank Rate/Repo.

(c)

1 and 3 only. Those are expansionary moves it would do.

(d)

All three. Over-states what it would refuse.

Summary

- **Official key is (b) 2 only. Expansionary policy:** cheaper and more plentiful reserves - cut repo/Bank Rate, ease SLR. Raising the Marginal Standing Facility rate is tightening, so that is what it would not do.

Related possible facts

These can be asked in a future Prelims paper.

MSF
Penalty window above repo.

SLR cut
Frees banks to lend - easing.