Q15

In India, the central bank's function as the 'lender of last resort' usually refers to which of the following? 1. Lending to trade and industry bodies when they fail to borrow from other sources 2. Providing liquidity to the banks having a temporary crisis 3. Lending to governments to finance budgetary deficits Select the correct answer using the code given below (a) 1 and 2 (b) 2only (c) 2 and 3 (d) 3 only Official key: B.

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Explanation

(a)

1 and 2. LoLR is to banks, not trade bodies.

(b) Official key

2 only. Liquidity to solvent banks in a temporary squeeze.

(c)

2 and 3. Financing the budget is a separate government-banker role, not LoLR.

(d)

3 only. Wrong function.

Summary

Official key is (b) 2 only. Lender of last resort means the central bank supplies emergency liquidity to banks. It is not a finance window for industry associations or a routine deficit-finance line.

Related possible facts

These can be asked in a future Prelims paper.

Bagehot

Lend freely, against good collateral, at a penalty rate.

LAF / MSF

RBI's standing liquidity windows in normal times.