**Commercial Banking System & Role of RBI**

**September 2022 Examination**

**Q1. One of the important mandate of RBI is prudent management of monetary policy, curbing inflation and checking unemployment in economy. Explain how RBI achieves these diverse parameters by use of different tools available with it. (10 Marks)**

**Ans 1.**

**Introduction.**

Monetary policy is a set of tools used by a nation's central bank to control the overall money supply and promote economic growth and employ strategies such as revising interest rates and changing bank reserve requirements. In India, the Reserve Bank of India implements monetary policy through a dual mandate to achieve maximum employment while keeping inflation in check. Under RBI in India, monetary policy has toaccord primacy to the goal of price stability, withdue consideration to the objective of growth. Thecountry’s experience yields several examples ofinflation-targeting frameworks with dual mandates.This Buy Complete from our online store

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**Q2. Credit appraisal is a critical analytical tool of bank. Largely the profitability of bank hinges on this tool. Any weakness on this front is reflected on the profitability of banks lack of it results in accumulation of stressed assets. BASEL-II has given strong recommendations to control this issue. Elaborate in details the important recommendations of this committee. (10 Marks)**

**Ans 2.**

**Introduction**

Basel II is an international business standard that requires financial institutions to maintain enough cash reserves to cover risks incurred by operations. The Basel accords are a series of recommendations on banking laws and regulations issued by the Basel Committee on Banking Supervision (BSBS). The efforts of the Basel Committee on Banking Supervision to revise the standards governing the capital adequacy of internationally active banks achieved a critical milestone therefore to safeguard against financial institutions and operational risks, international banking regulations (BASEL-II) that governed how much capital banks were

**Q3. Risk mitigation is one of the main function/concern of bank in volatile economy. In course of business banks face different types of risks which may vary from one bank to another.**

**a. Which are the major risks banks are exposed to and how they mitigate it? (5 Marks)**

**Ans 3a.**

**Introduction**

Risk management is important for banks to ensure their profitability and soundness. It is the process established by bank managers to ensure that all risks associated with the bank's activities are identified, measured, limited, controlled, mitigated, and reported on a timely and

**Q3b. Suppose the regulator asks one of the losses making Bank XYZ to close a few branches to reduce cost thereby make the bank more sustainable/profitable. But XYZ Bank refuses to close its few branches, citing some risk/s involved in the process. What are the risks XYZ Bank perceives if it closes a few branches. (5 Marks)**

**Ans 3b.**

**Introduction**

Bank branch closure might significantly affect the possibilities that firms have to finance their operations because bank finance has always been of utmost importance for their branches. Banks play a special role in their lending to smaller companies, and it may be difficult for such borrowers to find alternative sources of financing when bank lending is