Monetary Policy--Monetary policy implies those measures designed to ensure an efficient operation of the economic system or set of specific objectives through its influence on the supply,cost and availability of money.

Tools of monetary policy

Bank Rate: Bank rate is the rate at which the central bank is ready to lend money to the commercial banks or it is the rate at which the first class bills are discounted. By changing the bank rate the credit and further money supply can be affected. Change in the bake rate leads to change in interest rate. During inflation, monetary authority raises the bank rate to check the expansion of credit by the commercial banks. They will be left with less resources which would restrict the credit creating capacity of the commercial banks. On the contrary, during depression, bank rate is lowered so that credit expansion takes place which will revive the economy from depression.

OPEN MARKET OPERATIONS--It means purchase and sell of securities .If the credit is to be decreased inthe economy,the central bank begins to sell securities in the open market. This will result in decrease in money supply with the public as they will withdraw their money with the commercial banks to purchase the securities. This will curb inflation. During depression, when prices are falling,the central bank purchases securities resulting in expansion of credit and aggregate demand

VARIABLE RESERVE RATIO: If the central bank wants to contract credit during inflation, it raises the cash reserve ratio.As a result the commercial banks are left with less amount of deposits.They are compelled to curtail lending.If there is depression in the economy,the reserve ratio is reduced to raise the credit creating capacity of the commercial banks.

CHANGE OF LIQUIDITY:

According to this method,every nank is required to keep a certain proportion of its deposits as cash with it.When the central bank wants to contract credit,it raises its liquidity and vice versa.

SELeCTIVE METHODS

1. Chang in margin Requirements--+Margin requirement is the difference between the market value of of the assets and its maximum loan value.When the c ntral bank feels that prices are rising due to stock-piling ot some commodities by the traders,then the central bank controls credit by raising marginal requirements.This would reduce money supply and inflation would be curtailed.The central bank reduces marginal requirement at the time of depression.Thid will raise the credit creating cspacity of the commercial banks

2.Regulation of consumer credit---During inflaton,thisethpd is followed to control excess spending by the consumers.On the contrary,more credit facilities are allowed so that consumer may spend more and more to pull the economy out of depression

3.Credit Rationing--Under this method, the central bank fixes a limit for the credit facilities to commercial banks.Generally rationing is done by refusing loan to any bank, by reducing the amount of loans given to the banks, by fixing quota of the credit and by determining the limit of the credit granted to a partocular industry or trade.

4.Moral Suasion or advice-- Moral suasion takes the form of directives and publicity.The central bank focusses on the dangerous consequences of the credit expansion and deeks theor co-operation.There is no element of compulsion in this method.

5.PUBLICITY--+The publicity generally takes the form of periodicals and journals. It is adopted in order to force them to follow only that credit policy which is in the interest of the economy.

6.DIRECT ACTION--This method is adopted when se commercial banks do not cooperate with the central bank in controlling credit.

The central bank may take action in a number of ways.

a.It may refuse rediscount facilities to those banks who are not following its directions

b. It may change rates over and above the bank rate.

c. Any other strict restrictions on the defaulter institution