Student Name ____________________

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MONEY, BANKING & FINANCE

مشکل الفاظ کے اردو ترجمہ کے ساتھ

FOR B.COM PART I

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MicroTech
School of Software & Commercial Training

Mirza Commerce Academy

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طلباءوطالبات ہر سوال کو یاد کر کے خود زبانی لکھیں۔ یاد رہے کہ یونیورسٹی کے امتحان میں یونیورسٹی شیٹ پر سوالات حل کرنا ہوتے ہیں۔ کتابوں کی دکانوں پر یونیورسٹی شیٹس باآسانی دستیاب ہیں۔ آپ کو چاہیئے کہ تمام سوالات کو انہی یونیورسٹی شیٹس پر لکھیں۔ بی کام میں سب سے زیادہ مشکل کا سامنا وقت کی وجہ سے ہوتا ہے۔ زیادہ تر طلباء کو پانچ سوالات مکمل آتے ہیں لیکن رائٹنگ سپڈ نہ ہونے کی وجہ پانچ سوالات مکمل نہیں کر پاتے اسکی سب سے بڑی وجہ پریکٹس کا نہ ہونا ہے۔ اگر آپ زبانی یاد کر کے لکھنے کی عادت ڈال لیں گے تو پھر یونیورسٹی میں مقررہ 180 منٹ، فی سوال 36 منٹ میں باآسانی طلباءوطالبات نوٹس کے آخر پر دیئے گئے یونیورسٹی کے پاسٹ پیپرز کا مطالعہ ضرور کریں مکمل سوالات حل کر لیں گے اور نمبر بھی بہت اچھے آئیں گے (انشاءاللہ)

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In Mirza Commerce Academy

1. MBF will be taught in 45 days.
2. After every 5 Questions, test shall be held.

Q. 1 Define Bank? What is the difference between commercial and central bank given examples?

vs.

"A bank is public company that deals in money پیسے کا کاروبار کرتا ہے ***for profit*** منافع کمانے کی غرض سے***. It accepts deposits*** یہ لوگوں سے پیسہ وصول کرتا ہے ***from general public. It provides loans to businessmen and other persons."***

The bank pays interest on deposits and it receives interest on loans and advances. It also deals in foreign exchange زرمبادلہ, transfer money from one place to another, purchases and sells gold, securities, shares etc. There are many other functions a bank performs for its clients.

Difference between Commercial and Central Banking

کمرشل (تجارتی/منافع کمانے والے) اور مرکزی بنک میں فرق

1. Formation تشکیل کا طریق کار The central bank is formed under an Act of parliament or ordinance.	The commercial bank is formed under the companies law.
2. Ownership ملکیت The share capital of the central bank is owned by the govt. or people.	The share capital of the commercial bank is owned by the people.
3. Management انتظامیہ The management and Other employees are appointed by the Govt.	The management and other employees are appointed by the board of directors.
4. Number of bank بنکوں کی تعداد There is only one central bank for every country.	There are many banks in every country.
5. Branches شاخیں The central bank has only in land branches it has no foreign branch.	The commercial banks have both inland and foreign branches.
6. Aim نظریہ/مقصد The aim of central bank is to maintain monetary and economic stability.	The sole aim of commercial bank is to earn profit.
7. Issue of money کرنسی نوٹ جاری کرنا The central bank can issue currency money like Rs. 10, 20, 50, 100, 500, 1,000 and 5,000.	The commercial banks cannot issue currency but can issue plastic money, cheque, card and credit cards only.
8. Account Holder کھاتہ دار The government and commercial banks are the account holders.	General public and individual اکیلا شخص, partnership, limited companies are the account holders.
9. Advisor مشورہ دینے والا The central bank advises the govt. on financial matters.	The commercial banks advised their customers for investment business consultancy.

10. Nature of account اکاونٹ کی نوعیت The central bank opens the govt. accounts under various heads of accounts.	The commercial bank open current, saving, PLS, fixed deposits accounts.
11. Money market منی مارکیٹ ایسے کاروباروں کو کہتے ہیں کہ جو ایک سال سے زیادہ مدت کے قرضے جاری کرتے ہیں۔ It is the leader of money market.	The commercial banks are the member of money market.
12. Credit Controller پورے ملک کے ادھار کے نظام کو کنڑول کرتا ہے The Central bank controls the volume of credit through various methods طریق کار.	The commercial banks create according to money available.
13. Exchange controller (زر مبادلہ کا کاروبار کرنے والا (کرنسی ایکسچینج وغیرہ It is the controller of foreign exchange.	It is the authorized dealer in foreign exchange under the supervision of central bank.
14. Winding up بنک کا خاتمہ The central bank cannot be closed up even if working at loss. اس بنک کو بند نہیں کیا جا سکتا چاہے نقصان پر ہی کیوں نہ چل رہا ہو۔	The commercial bank can be closed up if the management so decides due to unsuccessful business. نقصان کی صورت میں انتظامیہ بند بھی کر سکتی ہے۔
15. Foreign payment بیرونی ادائیگیاں It makes the foreign payments on behalf of the government.	It makes the foreign payments for customers due to import and export of goods and services.
16. Transfer of money رقم کی منتقلی It transfers money from one place to another for the government and banks.	It transfers the money from place to place for the people.
17. Loans حکومت کو قرضہ دینا It arranges loans for the government and provides loans to commercial banks as lender of last resort کہیں اور سے قرضہ نہ ملے تو پھر سنٹرل بنک سے قرضہ لیا جاتا ہے.	It provides loans, cash credit and overdraft to the people.
18. Discount of bills مبادلہ ہنڈی کو بٹہ لگاتا ہے It discounts the bills for the commercial banks.	It discounts the bills of the customers.
19. Evening banking شام کے اوقات میں بنکاری The central bank does not provide evening banking services.	The commercial banks provided evening banking services for the customers.

Q. 2 Define bank discuss in detail the different kinds of banks.

Bank

"Bank is an institution which accepts deposits and advances loans to the people who need it."

بنک ایک ایسا ادارہ ہے جو لوگوں سے پیسے وصول کرتا ہے اور ان لوگوں کو قرضے دیتا ہے جنہیں قرضے کی ضرورت ہوتی ہے

Banks are doing many functions کام to facilitate the different type of people in a country. They accept deposits from people and lend ادھار دینا money to people. It is very difficult for banks to perform all the functions in a single bank. So the banking experts have divided the banks according to their importance and functions. Banks having different features منفرد خصوصیات can be divided as follows:

1. Chartered bank شاہی فرمان (بادشاہ یا ملکہ) کے حکم کے تحت قائم کیا گیا بنک

These are the banks which are established by the order of King's order. They are like other commercial banks. For example Chartered Bank of England.

2. Banks according to registration رجسٹریشن کے لحاظ سے قائم کئے گے بنک

1. Scheduled Banks شیڈیولڈ (رجسٹرڈ) بنک

The banks which are registered in the list of central bank are bound پابند ہونا to follow عمل کرنا the instructions and policies of central bank are called scheduled bank e.g. HBL & MCB.

2. Non-scheduled Banks غیر رجسٹرڈ بنک

These are the banks which are not registered in the list of central bank e.g. Punjab Provincial Corp Bank. پنجاب پراونشل کارپوریشن بنک

3. Banks according to ownership ملکیت کے لحاظ سے قائم بنک

1. Government Banks سرکاری بنک

These are the banks which are owned مالک ہونا by central مرکزی حکومت or provincial صوبائی حکومت government. The Government is responsible to make policies of these banks e.g. BOP, NBP etc.

2. Private Banks نجی بنک

The banks owned by the people of any country are called private banks e.g. HBL, UBL.

4. Money creative banks پیسے سے پیسہ بنانے والے بنک

1. Central Banks

Every country has its central bank. Its function is to manage monetary مالی and banking system بنکوں کا نظام of the country. Profit is not objective مقصد of this bank. It has authority اختیار ہونا of note issue e.g. SBP اسٹیٹ بنک آف پاکستان.

2. Commercial Banks

These are profit seeking منافع کمانے کی غرض سے banks. They accept deposits and provide short term ایک سال سے کم مدت کا قرضہ, medium term ایک سال سے دس سال کی مدت کا قرضہ, and long term loans دس سال سے زیادہ مدت کا قرضہ. These are called the heart of an economy e.g. RBS رائل بنک آف سکاٹ لینڈ, ABL الائیڈ بنک لمیٹڈ, MCB.

5. Saving & exchange banks بچت اور کرنسی تبدیلی والے بنک

1. Savings Banks ایسے بنک جہاں لوگ بچت کر کے مختلف سکیموں میں پیسہ جمع کروا کر منافع حاصل کرتے ہیں

These are the banks which are established to encourage and to collect the savings of poor and middle class people. They also give profit to depositors e.g. Post office, NSC.

2. Exchange Banks ایسی بنک یاادارے جہاں لوگ مختلف ملکوں کی کرنسی تبدیل کرواتے ہیں

Bank which provides foreign exchange to importers and exporters is called exchange bank. They convert local currency into foreign currency and issue traveler's cheques etc. For example Khannani & Kalia, Dollar East etc.

6. Development banksترقیاتی بنک

1. Agricultural development banksزرعی ترقیاتی بنک

These banks develop the agriculture sector of the country. They provide loans to purchase modern machinery, fertilizers and seeds etc. e.g. ZTBLزرعی ترقیاتی بنک لمیٹڈ.

2. Industrial development banksصنعتی ترقیاتی بنک

These banks support the industrial sector of the country. They give loans to make new industries and helps to sick industries ایسی صنعتیں جو نقصان پر چل رہی ہوںe.g. IDBPانڈسٹریل ڈویلپمینٹ بنک آف پاکستان.

3. Regional development banksعلاقائی ترقیاتی بنک

They develop particular region of the world and improve the living standard and helps in obtaining modern technology e.g. Asian Development Bank.

4. International development banksبین الاقوامی ترقیاتی بنک

They provide assistanceمدد فراہم کرتا ہےfor progress and economic development of all the countries e.g. World Bank.

7. Investment banksسرمایہ کاری کے لیے قائم کئے گئے بنک

These are the banks which deal in the purchase and sale of securities and they also provide loans for this purpose e.g. ICPانوسٹمنٹ کارپوریشن آف پاکستان & NITنیشنل انوسٹمنٹ ٹرسٹ.

8. School banksسکول کے بچوں کیلئے بنکنگ کی سہولیات

To develop the habit of saving in school children these banks are formed. Bank officials بنک کے ملازمین provide banking facilities to students at their schools. They are not in Pakistan.

9. Mortgage consumer and cooperative banksجائیداداور دیگراشیاء گروی رکھ کر قرضہ دینے والے بنک

1. Mortgage banksجائیداداور دیگراشیاء گروی رکھ کر قرضہ دینے والے بنک

These banks give loans to people against their movable and immovable property. People mortgage gold, silver and financial documents and house, shop and land etc to get loans.

2. Cooperative banks

These banks provide credit facilities ادھار کی سہولتto small farmers کاشتکارand industrialists صنعتکارto raise income level e.g. PCBپنجاب کوآپریٹو بنک,

10. Banks according to countriesملکی لحاظ سے بنکوں کی اقسام

1. Home banksملکی بنک

Banks owned and controlled by the government or the people of that country are called home banks e.g. NBP, UBL.

2. Foreign banksغیر ملکی بنک

These banks are owned and controlled by the government or people of a foreign country e.g. City Bank, Bank Alflah Ltd. RBS , Samba Bank etc.

Q. 3 Define Commercial Bank. Explain basic functions of a modern commercial bank and briefly narrate the importance of credit-

Allied Bank askaribank faysalbank HBL KASB Bank MCB PAKISTAN

Commercial Bank(تجارتی بنک (منافع کمانے والے بنک

"Banking means the accepting for the purpose of lending or investment of deposits of money from public repayableواپس کرنا **by cheque, draft, order or otherwise". (Banking companies** ordinance 1962)بنکنگ سے مراد لوگوں سے سرمایہ ادھار یا سرمایہ کاری کیلئے وصول کرنا اور واپس چیک، ڈرافٹ یا کسی اور طریقے سے کر دینا

The commercial banks do all kinds of banking business. The functions of commercial bank may be discussed in the following groups.

Primary Functions بنیادی کام

1. Receiving of deposits لوگوں سے سرمایہ وصول کرنا

The primary functions of commercial banks are as follows

1. Fixed deposit accountsایک مخصوص لمبے عرصے تک کیلئے سرمایہ وصول کرنا

Fixed deposits are for a fixed period decided at the time opening this account. High rate of interest is paid. Account holders cannot withdraw رقم نکلوانا money before end of fixed period طے شدہ وقت.

2. Current accountsچلت کھاتہ

On current account no interest is given. Businessmen and salaried persons تنخواہ دار افراد prefer ترجیح دینا this kind of account. There are some banks that pay interests on such current accounts.

3. Saving accountsبچت کا کھاتہ

Person with little savings محدود بچتیں deposit their money in the saving account. Money can be withdrawn upto a certain limit مخصوص حد تک. Interest سود is paid on reaming balance بقایا رقم.

2- Advancing loans قرضے فراہم کرنا

Received money is advanced to the people who need it. High rate of interest is charged from borrowers ادھار لینے والے and low interest is paid to depositors جمع کروانے والے. Following are different loans as under:

1. Running financeاچھی شہرت رکھنے والے اکاؤنٹ ہولڈرز کو تھوڑے عرصے کیلئے قرضہ کی فراہمی

The banker can give facility to selected customers to meet their working capital needs from their current accounts after settlement معاملات طے کرنا with the banker.

2. Demand financeایسا قرضہ بنک کسی بھی وقت واپس مانگ لیتا ہے

The bank can lent money to needy persons for short period and loan is repayable on demand at any time. This is also called call loans.

3. Educational loansتعلیمی اخراجات کیلئے قرضہ

Educational loans are granted to the financially week students مالی طور پر کمزور طلباء to meet the financial requirement مالی ضرورت پورا کرنا to get their education and repayable after their getting job as per terms شرائط of bank.

3. Discounting of Bills of exchangeمبادلہ ہنڈی کو بٹہ لگانا

Discounting of bills of exchange means that bank accepts the bill as security تحفظ for granting loan. It is also a source of income آمدن کا ذریعہ for the bank.

4. Mortgageگروی رکھ کر قرضہ دینا

Banks grant loan against the security of different assets like land, property and gold etc. Generally loan is granted for a long period of time under mortgage.

5. Agricultural loansزرعی قرضے

Banks grant loan to the agriculturists to meet their financial requirement for cultivation and also for cattle.

Secondary Functionsثانوی(دیگر مختلف)کام

Agency servicesکھاتہ داروں کے نمائندے کے طور پر کام سرانجام دینا

1. Collection and payment of Chequesچیکوں کی وصولی اور ادائیگی

Commercial banks collect and make payment of cheques on the behalf of their customers.

2. Dividendsکمپنی کی طرف سے شئیر زہولڈرز کو دیا گیا منافع کی وصولی

Commercial banks collect dividend and interest on shares on the behalf of their customers.

3. Security (Trustee)(سرٹیفیکیٹ(گورنمنٹ کی سرمایہ کاری کیلئے جاری کردہ سیکورٹی

Customer directs حکم دینا his bank to purchase and sale securities on his behalf bank at nominal commissionانتہائی معمولی

4. Agent (Representative)نمائندہ

Bank also acts as an agent or representative of customer at home and abroadاندورن وبیرون ملک.

5. Instructionsخصوصی ہدایات

Bank also does on instructions of his customers by charging nominal charges. Orders for non-payment ادائیگی سے روکناof cheques can be given to bank.

6. Transfer of Fundرقوم کی منتقلی

Bank also performs the function of transferring funds from one place to another at nominal commission. (WUMT)ویسٹرن یونین منی ٹرانسفر

Utility Servicesدیگر سہولیات

1. Credit Instruments

Banks issue various credit instruments e.g. Cheques, draft and L/C. etc.

2. Foreign Currency

Banks deal in foreign currencies and facilitate foreign trade and foreign traveling.

3. Precious Articles نایاب اور مہنگی اشیاء

Banks accept valuables مہنگی اشیاء of people. For example gold and silver ornaments سونے اور چاندی کے زیورات, documents, securities, insurance policy, etc. for safe custody.

4. Underwriting جب کمپنی کو ابتدائی طور پر سرمایہ اکٹھا نہیں ہوتا تو کمپنی سستے داموں اپنے شئیرز چند مخصوص اداروں کو بیچ کر اپنا کام چلاتی ہے

Banks underwrite for shares and debentures in order to raise capital or fund or loan.

5. Trade Information تجارتی معلومات

Banks collect useful trade information for their customers.

6. Easy Medium of Exchange چیکوں کے ذریعے سے رقوم کا لین دین آسان ہوتا ہے

Issued cheques of banks are considered as an easy medium of exchange

7. 24 Hours Cash Service (ATMآٹومیٹک ٹیلر مشین**/ ADM**آٹومیٹک ڈیپازٹ مشین**)**

Modern commercial banks use computerized counters to provide 24 hour cash service through automated teller machines (ATM) to their customers.

Q. 4 What is the procedure for opening a bank account? ایک کمرشل بنک میں ایک کاروبار یا آدمی کیسے کھاتہ (اکاونٹ) کھلوا سکتا ہے

Bank AL Habib Limited

______________ BRANCH

ACCOUNT OPENING FORM
(For Companies, Trusts, Clubs and Associations)

Account No. [| | | - | | | | | - | | | - |]

Date ______________

Dear Sirs,

We request to open an account/accounts with Bank AL Habib Ltd. as specified hereunder.

We agree to provide any document(s) required by the Bank according to the type of account(s) requested and to abide by the current rules and policies of the Bank for the conduct of such account(s). We have received a copy of the Account Opening Form and Rules, which have been read and signed by us. We agree with these rules and also agree to be bound by them as amended by you from time to time.

This request once accepted by the Bank will deem to be an agreement between the Bank and ourselves and the sections hereto once completed shall be treated as an integral and indivisible part of the same.

Title of Account

Permanent Address ______________

City ______ **Postal Code** ______ **Country** ______

Tel No. Office | **Fax/Mobile No. Factory** | **Previous Bank/Branch A/c#**

NTN | **Other Bank/Branch A/c#** | ☐ Resident ☐ Non-Resident

Nature of Account ☐ Public Ltd. Co. ☐ Private Ltd.Co. ☐ School ☐ Association ☐ Hospital ☐ Trust ☐ Club

Nature of Business

Type of Account ☐ Current ☐ PLS Savings ☐ PLS MPP ☐ T/Call/A/c ☐ FCY Current ☐ FCY Savings

Type of Currency ☐ PKR ☐ USD ☐ GBP ☐ DEM ☐ EUR ☐ Other

How often Statement of Account is Required ☐ On Request/Hold ☐ Others (specify)

Name of Introducer Mr./Miss/Mrs/Ms. ______
Bank A/c No. ______
Branch ______ ______ **Signature** | ______ **Secretary** | ______ **Chairman**

Directors and persons Authorized to sign Name in Full (In CAPITAL Letters)	N.I.C. No.	Official Position/Status	Specimen Signatures
Mr/Mrs/Ms			
Mr/Mrs/Ms			
Mr/Mrs/Ms			
Mr/Mrs/Ms			
Mr/Mrs/Ms			
Mr/Mrs/Ms			
Mr/Mrs/Ms			

The Bank may honour whether the account is in credit or not, Cheques, Bills of Exchange, Notes, Drafts and other orders drawn accepted or made on behalf of the Company/Trust/Club/Association by ______________

The following documents required by you are enclosed.

- ☐ Certificate of Incorporation.
- ☐ Certificate of Commencement of Business (if applicable).
- ☐ Resolution of Board of Directors as per specimen on reverse.
- ☐ Rules, Regulations and Bye-Laws (For Trusts, Clubs & Assoc.).
- ☐ Tax Certificate.
- ☐ Resolution of Trustees/Office Bearers (For Trusts, Clubs & Assoc.)
- ☐ Memorandum and Articles of Association (attested True Copy in case photocopy is submitted).
- ☐ List of Directors and Officers alongwith Form-29.
- ☐ Attested copies of NIC(s) / Passport(s).
- ☐ Certificate of registration under the Societies Registration Act.
- ☐ Trust Deed.

Yours faithfully

An individual اکیلا شخص, business and any organization opens a bank account. Opening a bank account is a contract معاہدہ with customer and banker. One should be very careful while opening a bank account. Everybody is not allowed to open bank account; bank does inquiry پوچھ گچھ about every new customer. If applicant درخواست گزار is trustworthy قابل اعتماد, then account is opened otherwise application is rejected.

Procedure for opening a bank account بنک میں کھاتہ کھلوانے کا طریق کار

1. Account opening form اکاونٹ کھولنے کا فارم

A person can open an account in a particular branch of any bank. He should ask for the printed account opening form on which he provides his all details required by the bank.

2. Introduction کھاتہ دار کا تعارف

The account is opened on proper introduction. The old customer introduced the applicant بنک کا موجودہ کھاتہ دار نئے درخواست گزار کو متعارف کرواتا ہے to the bank. The application can be accepted or rejected.

3. Submission of documents ضروری دستاویزات فراہم کرنا ہوتی ہیں

Every customer has to provide necessary documents. Individual has to provide identity card, partnership has to provide partnership deed and company Memorandum of Association کمپنی کا آئین(MOA), Articles of Association (AOA) کمپنی کے قواعد وضوابط or any other documents.

4. Specimen signatureنمونے کیلئے دستخط

The banker gets the specimen signature of the customer on the printed card having four portions and keep it with it to confirm when any document or cheque is present for payment.

5. Account numberکھاتہ کا نمبر

After approving the form of a customer, bank allots جاری کرنا an account number for every new account opened.

6. Pay in slipبنک میں رقم جمع کروانے کیلئے استعمال ہونے والی سلپ Every account is opened with money. Customer fills out pay in slip and deposits the money at the time of opening with cashier of bank.

7. Initial depositکم از کم کتنی رقم کھاتہ کھلوانے کیلئے درکار ہوگی The initial deposit is an amount which is paid into the bank at the time of opening on account. The current account is opened with Rs. 1,000. A profit and loss account sharing account is opened with Rs. 100.

8. Bank pass bookایسا کتابچہ جو کہ بنک کی طرف سے کھاتہ دار کے نام جاری کیا جاتا ہے اور اس میں تمام لین دین کا ریکارڈ رکھا جاتا ہے The passbook is a small booklet issued by bank to customer. The bank makes entries of the transactions into this book.

9. Cheque bookچیک بک The cheque book contains printed forms known as cheques. The cheques are used to withdraw the amount for the bank. A cheque book has serial numbers.

Operating a bank account بنک میں کھاتہ چلانے کا طریقہ کار

When a bank account is properly opened, then a customer can easily deposit and withdraw money. Deposits are made through pay in slips and withdrawals are made through cheque or any other instruments like pay order, drafts or standing orders or instructions in the name of banker.

Q. 5 What do you mean by central banking system Indicate the main functions of a central bank / state bank?

Central Bank مرکزی بنک

<u>"A central bank is a bank which controls credit."</u> مرکزی بنک ایسا بنک ہے جو کہ ادھار کو کنڑول کرتا ہے (W. A. Shaw)

<u>"A central bank is that which the lender of the last resort is."</u> مرکزی بنک ایسا بنک ہے کہ جب کہیں سے قرضہ نہیں ملتا تو مرکزی بنک قرضہ دیتا ہے (R.P. Kent)

<u>PRINCIPLES OF CENTRAL BANKING</u>

1. Effective Policy

Central bank implements effective policies to control the credit in the country.

2. Legal limits

Central bank works according to set rules of the government and its all dealings are within the said rules.

3. Economic Stability

Central bank works for financial needs and economic stability and for the growth of banking.

4. National Interest

The object of central bank is not to earn the profit. It works in the best interest of the nation.

<u>FUNCTIONS OF CENTRAL BANK</u>

The activities of central banks are different from the activities of the commercial banks. Central bank of a country looks after the national interest.

<u>1. Banker to the Government</u>

1. Accounts

The central bank keeps the deposits and makes payments of the central and provincial governments.

2. Financial Advisor

It also advises the government on economic matters such as controlling inflation and revaluation of the currency.

3. Foreign Loans

Central bank makes arrangements to get foreign loans on the demand of government.

4. Transfer of Capital

Central bank transfers capital of central & provincial governments from one place to another.

5. Govt. Securities

It is the custodian of government securities, Treasurer bills and bonds. It also works for their sale and purchase.

<u>2. Sole Right of Note Issue</u>

In every country central bank has sole right of note issue. This authority has been given to central bank for uniformity, expansion of notes, regulate demand etc.

<u>3. Bankers' Bank</u>

As a banker for the commercial banks the central bank performs the following functions

1. Custodian of Cash Reserves

The reserves of commercial banks are kept with the central bank.

2. Clearing House

As a banker's bank the central bank acts as a clearing house for the settlement of mutual claims of commercial banks (NIFT)

3. Lender of Last Resort

Central bank lends to the banks in times of stress to save the financial structure of the banks.

4. Opening of New Bank

A new bank or a branch cannot be opened without the permission of central bank.

5. Advance Policy

Central bank makes policies of advancing loans and rate of interest for commercial banks.

4. Controller of Credit

Central Bank controls the money and credit supply in the country for economic objectives.

5. Controller of Foreign Exchange

It is responsible for the management of foreign exchange and maintenance of external value of the home currency. (Foreign Exchange Control Act, 1947)

6. Miscellaneous Functions

1. Staff Training (NIBAF)

Central bank provides modern training of banking to staff and establishes training institutes.

2. Growth to Saving

Central bank makes plans and adopts various methods to promote the habit of saving.

3. Industrial and Agricultural Development

Central bank gives loans of different kinds to develop the industrial and agriculture sectors.

4. Representation in International Institutions

It acts as the representative of government for International institutions like World Bank etc.

5. Membership Fee

If the government wants to become the member of international institutions then central bank pays membership fee.

7. Leader of Capital Market

Central bank is the leader or guardian of capital market because it makes policies and takes decisions of credit and to stable the monetary system in the country.

8. Exchange Rate Stability

The central bank fixes the exchange rates of the domestic currency in terms of foreign currencies.

9. Representative of Foreign Trade

Central bank acts as the representative of government in international trade. Besides making investment in international market it also provides foreign exchange to importers and exporters of the country.

Q. 6 How does a commercial bank create credit? Indicate the limitations on the powers of a bank to create credit.

Credit creation

"The important work of bank is to provide easy medium of exchange for the payment and receipt to people. Banks are considered as manufacturer of credit. It means they are not only the dealer of money but in actual meaning they are the creator of credit."

(Prof. Crowther)

Example

A customer deposits Rs. 2000 in Bank A. Now bank A grants loan of Rs. 1600 to another customer after keeping Rs. 400 (20%) as reserve. The customer deposits the amount of loan Rs. 1600 in its bank B. Now the bank B will grant Rs. 1280 as loan after keeping Rs. 320 (20%) as reserve. This is how a chain process of credit creation takes place.

Credit Creation by banking system

Banks	Primary Deposits	Ratio of Reserve	Cash Reserve	Credit Creation
A	2,000	20%	400	1,600
B	1,600	20%	320	1,280
C	1,280	20%	256	1,024
Total	**4,880**		**976**	**3,904**

Explanation

For the explanation purpose we have to take the following assumptions:

1. Primary new Deposit Rs. 2000.
2. All the payments and receipts are made through banks or cheques.
3. There is no leakage in the process of credit creation.
4. Ratio of cash reserve is 20% which remains constant through all the stages of the credit creation process.

Formula of Credit Creation

If we want to know the expansion of credit for Rs. 2000 the following formula can be applied or used. **= New Deposit x 1 / Reserve Ratio**

= 2000 x 1 / 20% = 2000 x 100 /20 = **Rs. 10,000**

Process of Credit Creation

The single bank cannot create credit. It is the banking system as a whole which expands loans many times of its excess cash reserves. Commercial banks can create credit in following two ways:

1. Discounting of Bills

A bank also creates credit through discounting of bills of exchange. In this method the bank discounts the bill and issues a cheque book after the opening of account instead of giving cash.

2. Supply of Loans

When a bank agrees to grant loan to a borrower against the securities then it opens an account for the granted amount instead of giving cash. Borrower makes payment through cheque only. In this way the process of credit creation goes on.

Limitations of Credit Creation

The power of commercial banks to create credit is limited. There are many limitations on the power of banks for the creation of credit

1. Primary Deposits

Banks can create credit only if they get a primary new deposit that is why it is said that "deposits create credit and credit creates deposits".

2. Willingness to Borrow

Bank has to find customers who are willing to borrow money otherwise credit creation is not possible.

3. Shortage of Securities

Banks demand the securities from borrowers for granting loan. If borrower is not in a position to fulfill this requirement then the bank will not grant loan.

4. Cash Reserve

A bank cannot lend all of its funds. It has to keep a reasonable portion of its funds to meet the demand of its customer's depositors.

5. Central Bank Policy

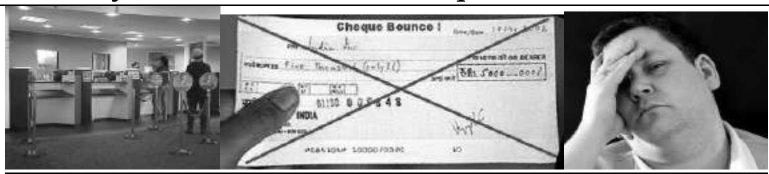
The commercial banks are not independent while lending money. The central bank of the country can impose certain restrictions on banks to create credit.

6. Economic Conditions

If there is economic stability in the country then there will be more chances of profit for traders and people will borrow loans from banks.

7. Types of Deposits Demand deposits result in credit but sometimes there are more fixed deposits which damages the chain of credit, because bank has to keep more reserves to meet sudden demands.

Q. 7 Indicate the cases in which a banker MUST refuse to honor the cheque. Q. Indicate the cases in which a banker may refuse to honor the cheque.



<u>Cheque</u>

<u>"A cheque is a bill of exchange drawn on a specified banker and not expressed to be payable otherwise than on demand."</u>

<u>Bank Al Falah Limited</u> Date: **<u>01-08-2009</u>**
Paris Road Branch, Sialkot

Pay **<u>Mirza Shaban Zafar</u>** or bearer

Rupees **<u>Ten Thousand rupees only</u>** .

Signature

A/C No. 01245169871
Muhammad Aslam

<u>When Bank Must Refuse Payment</u>

1. Cheque not signed by account holder
The account-holder can draw cheque for making payments. He can forget to put signature on such a cheque. The bank has right dishonor unsigned cheque in this case.

2. Signature differ
Every bank takes signatures of every account holder at the time of account opening. The account holder may forget the original signature to sign on cheque similar to specimen signatures and in case bank must dishonor the cheque.

3. No date on cheque
The account holder must write date on cheque. The paying bank refuses to honor the cheque if date is not written on cheque.

4. Mutilated cheque
Mutilated cheque means a torn cheque. When mutilated cheque is presented to banker is dishonored. In absence fresh instruction such cheque has no value.

5. Death of customer
After death of account holder relationship with bank comes to an end. The bank has right to dishonor all outstanding cheques after receipt of notice of death of an account holder.

6. Insolvency of drawer
A person can be declared as insolvent by the court. The court serves notice to banker, keeping in view this notice, banker has right to refuse payment of cheque.

7. Insanity of account-holder
The customer may become mad. The doctor decides about insanity of an account holder. After receipt of this notice banker refuses all cheques issued by such person later become mad.

8. Different amount

A customer has to write same amount in words and figures. If he may writes different amount in words figures, the bank refuses to make payment of such cheque.

9. Order of court

The court of law may pass an order to stop payment as punishment. When bank receives such orders, payment of cheque is refused.

10. Closed account

An old customer cannot issue cheque against closed account, if there is any balance in such account. The bank cannot honor cheque as account is already closed.

13. Crossed cheque

A crossed cheque is not payable at bank cash counter. The bank will collect the amount from another bank on behalf of his customer.

14. Payee fails to provide identity

Order cheque is issued in the name of any natural person. The name of payee must be written in the cheque. The drawee bank has right to dishonor cheque if identity of payee is not available.

15. Worn-out cheque / Stale Cheque

A cheque may remain in circulation for six months from date issue. The cheque may become worn out during its life. The entries in cheque may not legible. The banker has right to refuse payment of worn out cheque.

Q. 8 Define and differentiate between promissory note, bill of exchange and cheque.

Promissory Note

"A promissory note (not being a bank note or currency note) is an instrument in writing containing an unconditional undertaking signed by the maker to pay a certain sum of money only to or to a certain person or to the bearer of the Instrument."
(Section 4 of Negotiable Instruments Act, 1881)

Rs. 5,000/- Sialkot , 12 September, 2008

Sixty days after date, I promise to pay to Mr. Mirza Shaban Zafar or order the sum of rupees five thousand or for value received.

To, Muhammad Aslam
9/208 Islampura, Sialkot

Stamp / Sd.
Abdur Rehman Janjua

Bills of exchange

"A bill of exchange is an instrument in writing containing an unconditional order signed by the maker directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instrument." (Section 5 of Negotiable Instruments Act, 1881)

Rs. 10,000 Sialkot , 12 September, 2008

Three months after date, pay to Jamil or order the sum of Rs. Ten Thousand only for value received.

To Mirza Shaban Zafar

9/208 Islampura, Sialkot

Accepted
Mirza Shaban Zafar

Stamp / Sd.
Abdur Rehman Janjua

Cheque

"Cheque is a bill of exchange drawn on a special banker and not expressed to be payable otherwise than on demand." (Section 6 of Negotiable Instruments Act, 1881)

Bank Al Falah Limited Date: **01-08-2009**
Paris Road Branch, Sialkot

Pay **Mirza Shaban Zafar** or bearer

Rupees **Ten Thousand rupees only**.

Signature

A/C No. 01245169871
Muhammad Aslam

Reason	Promissory Note	Bills of Exchange	Cheque
1. Persons	There are two persons in a promissory note. They are maker and payee.	There are three parties in a bill of exchange. They are drawer, drawee and payee.	There are two persons in a cheque. They are account holder and bank.

Reason	Promissory Note	Bills of Exchange	Cheque
2. Promise	There is a promise on the part of debtor to make payment as agreed.	There is an order on the part of creditor to make payment as agreed.	There is an order to a bank to pay the certain amount to payee.
3. Liability	The liability of maker is absolute and primary. The maker is principal debtor.	The liability of drawer is conditional and secondary. The drawer is surety in case of a bill.	The liability of a banker to pay is primary. A banker has to make payment if there is no objection.
5. Bearer	A promissory note cannot be made payable to bearer.	The bills of exchange can be payable to bearer.	A crossed or order cheque cannot be payable to bearer.
6. Copies	A promissory note cannot be prepared in sets. It has on e copy only.	A bill of exchange can be drawn in sets. The foreign bills have three copies.	A cheque is a single document. It cannot be drawn in sets.
7. Payee	The make of promissory note cannot become payee.	The drawer of bills of exchange may be payee.	Any person, company, firm, can be payee in case of a cheque.
8. Relation	The make has direct relations with payee.	The drawer has direct relationship with drawee but not with payee.	The banker and customer have direct relations.
9. Notice	A notice of dishonour is not given to the maker.	The notice of dishonor is given to drawee and endorsers.	There is no need to give notice of dishonour to customer.
10. Responsibility	The makers are jointly and severally responsible for payment.	The acceptors are jointly responsible for payment.	The banker is singly responsible for payment.
11. Noting	Noting and protesting is not applicable in this case.	Noting and protesting is necessary for recovery of amount of bill.	There is no need of noting and protesting in cheque's dishonour.
12. Maker	The debtor is person who can make or write it.	The creditor is a person who can make or write it.	The account holder of a bank can make and write it.
13. Area	A promissory not is used in the country only. The area of working is limited to national boundaries.	A bill of exchange may be used in the country and abroad. The area of working may be across to borders.	A cheque is a usually drawn within a country. But some payments can also be made through foreign cheques.
14. Payment	A promissory note can be used for making payments at local level.	A bill of exchange can be used to settle at world level.	A cheque can be use for domestic and foreign payments.
15. Kind	Promissory note is payable in rupees in one country. The legal covering is rupees.	A bill of exchange may be payable in rupees or any other currency.	A cheque can be payable in local and foreign currencies.

Q. 9 Define letter of credit. Briefly discuss its type and procedure of opening a letter of credit also discusses the advantages.



Letter of Credit

<u>"A letter of credit is a written instrument issued by the buyer's bank authorizing the seller to draw in accordance with certain terms and conditions."</u> (Frank)

<u>PARTIES</u>

1. Importer/ Buyer / Opener
The person who buys goods from a foreign country is called importer and he opens L/C.

2. Exporter / Seller / Beneficiary
The person who sells sends goods to another country is called exporter.

3. Importers Bank / Opening bank / Issuing Bank
The bank which issues L/C and assures the exporters bank for payment.

4. Exporters Bank / Seller's Bank/ Beneficiary Bank
It is the bank in whose name the L/C is issued.

<u>PROCEDURE OF OPENING AN L/C</u>

1. Agreement
The importer and exporter make an agreement for the purchase and sale.

2. Performa Invoice
Performa invoice is a bill in which description and quantities are mentioned and are changeable as per terms of the contract.

3. Contact with the Bank

After finalizing the agreement, the importer makes contact with the bank to open L/C.

4. Import License

Bank while issuing L/C requires the import license and the proforma invoice from importer.

5. Application Form

If bank is satisfied then it provides him an application form.

6. Inspection of the Application

The bank inspects the application, examines the customers credit standing etc.

7. Under Taking from Importer

After accepting the application, the bank obtains an undertaking from the importer that he will buy all the documents from bank at mark up fixed by the central bank.

8. Margin Requirement

The bank asks the importer to deposit a certain proportion of total value and it may be as per the reputation of the customer.

9. Issuance of L/C

After getting satisfaction the bank issues a L/C to Exporter's bank.

10. Confirmation

Firstly the L/C is confirmed by fax or other telecommunication and then actual letter of credit is sent.

11. Delivery of Goods and Documents

The exporter delivers the goods after the confirmation of L/C and his bank sends the concerned documents to the importers bank.

12. Payment

The importers bank clears the payment after examining documents and hands over all the documents to the importer after receiving payment.

ADVANTAGES

The L/C is providing following advantages to the international trade.

1. Confidence

Traders from different countries don't know each other. The letter of credit creates an environment of guarantee and confidence by declaring the financial position.

2. Increase in Accounts of Bank

Customer opens bank account to obtain L/C which results in the increase of bank accounts.

3. Facility for Importers

Importers deposit some amount of total value of goods into bank and gets less burden of payment.

4. Facility for Payment

L/C is an easy mode of international payments because only documents are exchanged.

5. Pre-shipment Finance

Exporter can get pre-shipment finances for packing, handling and even for the purchase.

6. Easy Transfer

The L/C has made the transfer of money from one country to another country very easy.

7. Income of Bank

L/C increases income of banks. Banks charge reasonable amount as commission.

8. Facility for Exporter

The L/C helps the exporters in a way that they can easily export the goods.

9. Legal Protection

The L/C provides legal protection to exporter for the receipt of payment.

10. Economic Development

Better exports will always give goods foreign exchange to the country.

11. Tension Free

The L/C makes the importer and exporter tension free from the payment and receipt.

KINDS OF LETTER OF CREDIT

1. Revocable L/C The revocable credit can be changed or cancelled at any time without prior notice to seller. The issuing bank can inform to advising bank for any change.

2. Irrevocable L/C The irrevocable credit cannot be changed or cancelled by issuing bank himself. The consent of parties is to be taken first.

3. Transferable L/C Where credit can be transferred by the original party to letter of credit to any other person is called transferable credit.

4. Documentary L/C When opening bank asks for attachment of necessary documents to be attached with the letter of credit is called documentary letter of credit.

5. Open or clean L/C When there is no condition to attach the documents with L/C is called open or clean L/C.

6. Fixed L/C The amount of this type of L/C remains same within fixed period is called fixed L/C.

7. Red clause L/C To provide funds to exporter for purchasing raw materials for manufacturing of goods is written with red ink to draw special attention is called red clause L/C.

8. Green clause L/C When the bank provides funds to seller specially to purchase and store wool from Australia is called green clause L/C.

9. Packing L/C Bank grants packing credit to exporters to assist them in meeting pre-shipment requirements.

10. Circular L/C This type of L/C is issued to visitors and travelers needing funds in many countries. The issuing bank can require different foreign banks to honour drafts of customers.

Q. 10 What is the nature of relationship between banker and customer? Explain briefly the right and duties of a banker and customer?

Banker

"A banker is a dealer in capital or, more properly, a dealer in money. He is an intermediate party between the borrower and the lender. He borrows from one party and lends to another." (JA. Gilbert)

Customer

"A customer is one who has an account with a banker or for whom a banker habitually undertakes to act as such." (Dr. Hart)

RELATIONSHIP BETWEEN BANKER & CUSTOMER

1. Principal and Agent
When a banker collects payment of negotiable instrument, pays any expense or buys and sells securities on behalf of customer, he acts as his agent customer becomes principal.

2. Purchaser and Seller
In financed sale with mark up, the banker is the seller of the goods and the customer is the purchaser of the same.

3. Trustee and Beneficiary
When a banker receives securities, and valuable goods for the custody, the banker's position is that of a trustee. When banker receives money then banker becomes beneficiary.

4. Debtor and Creditor
The primary relation of account holder and customer is of debtor and a creditor. Where bank lends money he is creditor and borrower is the debtor.

5. Bailer and Bailee
When a banker takes valuable goods of customer, he becomes a bailee. The customer who deposits property is a Bailer.

6. Cardinal (Friendly) Relation
Sometimes the banker is in a position to establish friendly relation with his customer by providing reliable and confidential information about the general standing of people.

7. Mortgager and Mortgagee
When a banker accepts immovable property of customer as security for mortgage, the customer becomes mortgager and bank is mortgagee.

8. Lesser and Lessee When a banker provides finance to a customer on the basis of lease financing the relationship becomes that of a lessee and lesser. In this case the banker is lesser and the customer is lessee.

9. Pledger and Pledgee When a customer pledges an article goods and documents with the banker as a security for payment of debt, the relation between customers becomes pawnor and banker is Pawnee.

10. Aamal and Modarib When a banker provides finance to customer under the agreement of Modaraba, the relationship becomes that of Modarib and Aamal. The banker is Modarib and the customer is Aamal.

11. Hirer and Owner In case of hire purchase financing the banker is the owner of the asset and the customer is hirer.

Q. 11 Discuss the privatization of banks in Pakistan. Explain its advantages and disadvantages.

Denationalization / Privatization of Bank

"Privatization means selling nationalized industries and other parts of the public sector to private businesses and individuals."
(Cook)

OBJECTIVES OF PRIVATIZATION

1. Improve performance
The purpose of privatization of banks is to improve performance. When ownership is in private hands they work for profit.

2. Promote healthy competition
The purpose of privatization of banks is to create healthy competition. Larger the deposits the larger the profit.

3. Reduce burden of government
In privatization business is run by private sector. The government can make rules for proper working and reduces burden the government.

4. Funds for social sectors
The privatization of banks provides funds to the government. The capital invested in bank is available for social sectors and government can set up schools and hospitals.

5. Speed up rate of industrialization
The sale of banks to private people is helpful to accelerate speed of industrialization. The fund invested in banking sectors become free for development.

6. Promote capital market
The privatization of banks is useful for promotion and increase of capital market. The share of market becomes strong due to increase in strength of shareholders.

ADVANTAGES OF PRIVATIZATION

1. Professional management
The owners of privatized banks can hire services of professional management. The professionals can run banking business on sound lines.

2. Healthy competition
Privatization of banks is essential for healthy competition. Private Banks work for profit. The sense of competition develops for increasing the rate of profit.

3. Efficiency
The efficiency of privatized banks increases reasonable pay, promotions and other facilities for employees.

4. Reasonable profit

The main source of profit is lending. The loans are provided at higher rate, and receive deposit at low rate. The difference is profit of bank.

6. Quality services

The banks are successful if they offer all services to customers. It is the age of competition so quality services are the need of the day.

7. Equal income

The shares are sold to general public. The number of shareholders may be in million. The profit is distributed among shareholders.

8. Productive loans

The loans are provided for productive purposes. The banks may discourage consumption loans or speculative loans. Productive loans can increase economic development.

9. Employment opportunities

The banks provide loans to business and other people. New companies need people and this provides employment for people.

10. Earning foreign exchange

The management can open branches in other countries. The banks earn foreign exchange.

DISADVANTAGES OF PRIVATIZATION

1. Extra employees

The drawback of privatization is that employees are declared extra and increases unemployment. Jobless workers increase the worries of state.

2. No branch in rural areas

The banks hesitate to set up branches in rural areas. So a large part of population can not get help.

3. Unbalanced growth

The management of privatized banks provides loans in particular areas unbalance growth in the country. The areas may remain underdeveloped where loans are not distributed.

4. Jobs for relatives

The management of privatized banks may provide jobs to friends and relatives.

5. Loans to relatives

The management likes to lend money to persons who are relatives or friends of directors of bank. In this way only few people have approach for loans.

6. Owners association The owners of private banks can make informal agreement for earning high profits. Such associations do not care for the customers.

CONCLUSION

The privatization of banks in Pakistan has removed many problems but not in full. There are certain chances of difficulties which were present before nationalization of banks in Pakistan. State bank of Pakistan will have to make effective policies to control working of commercial banks.

Q. 12 What do you understand by the employment and sources of funds in relation to the banking system? In this connection explain the principle or factors taken into an account of the bank.

Employment of funds

"Investment or advancing of funds by commercial banks in order to get profitable returns."

FORMS OF EMPLOYMENT OF FUNDS

1. Cash Reserves

To make higher profits bank should utilize its funds that it can also fulfill the needs of cash of its account holders. Every bank is required to maintain 18% of its total demand deposits in Pakistan. In addition to this, banks are required to keep 7% of its total demand deposits with SBP which amounts to 25% collectively. Besides these requirements banks should keep reserves depending these points also like Habits of depositors, Nature of account, clearing house facility, the size of reserves etc.

2. Advances / Loans

After fulfilling allowance the requirements by the SBP, the reaming amount is used by the commercial banks in such a way that there is maximum return and advances are the most profitable option for the commercial banks. Usually a bank makes advances in the following ways:

a) Bank overdraft

Overdraft means a facility provided by a bank to account holder to withdraw money from his account more than the actual amount. Bank charges interest on the money overdrawn.

b) Discounting bills

Bank provides money to a person holding a bill of exchange. Bank deducts rate of interest for the period which is still outstanding remaining amount is transferred to the customer's current account.

c) Cash credit

Cash loans are long term loans issued against securities (fixed assets). Amount of the loan is transferred to the current account of the borrower. The interest is charged only on the amount withdrawn.

d) By opening loan account

These loans are issued against securities (liquid assets.). These are short term loans. The bank opens loan account in the name of the borrower. Interest is charged on the full amount of loan.

e) Money at call/ Short notices

Such kinds of loans are given for a very short period of time. Usually for 7 days. These loans are provided to the bank in order to maintain their liquidity requirements and also to the brokers of stock exchange.

3. Investments

Banks invest a large percentage of their funds in the government and stock exchange securities. Most of the investments of the banks are in central bank and government securities because these securities involve lesser risks. The large portion of banks funds deposits repayable on demand, so banks mostly invest in short and medium term securities which are as Public debts, Semi government securities, securities of public companies, industrial securities.

SOURCES OF BANK FUNDS

A commercial ban is a profit seeking institution and in order to achieve this objective it offers a varied to securities packed with the interest bearing options to the customers. These obligations of the banks towards the customer are the sources of fund for the bank and usually these are shown on the liability side of the balance sheet. The main sources which supply funds to the bank are as follow:

1. Bank own funds

Usually the banks have three own funds as under:

a) Paid up capital

The amount with which the banking company in Pakistan has been registered is called authorized capital. The Paid up Capital is that portion of capital which the banking company has actually received from the public. The banks in Pakistan raise capital by issuing ordinary shares of Rs. 10 each. No banking business shall be constructed by the banking company unless is fulfills following conditions as law says about it.

b) Reserve funds

At the time of declaring dividend, a certain portion of profit is transferred to the reserve fund. This reserve belongs to the shareholders and at the time of liquidation, the share holders are entitled to these reserves along with the capital. The main purpose of setting aside the part of capital is to the meet the unforeseen expenses of the bank.

c) Profits

Profit is another major source to a bank for the purpose of conducting business. Profit signifies to the credit balance of the profit and loss account which has not been distributed.

2. Borrowed funds

The other major sources of the bank funds for the banking business are the borrowings. Banks main borrowing mostly consists of deposits from its customers. The larger the deposits, the larger will be the funds. However, the borrowing sources are mainly divided into the following categories:

1. Deposits

a) Current deposits

These are payable to the customers when they are needed. The customers can withdraw amount from these accounts at any point in time.

b) Fixed or Term deposits

The deposits can be withdrawn after a specified period of time is referred to as fixed or term deposits. The period for which the bank keeps these deposits normally varies from 3 months to 5 years.

c) Saving deposits

Saving deposits were introduced to encourage the saving habits and in Pakistan, these can be opened with a very small amount of money and depositors are issued a cheque book for the withdrawals.

d) Foreign currency account

Government of Pakistan has introduced many reforms in foreign exchange control in the country since February 1990 and foreign currency accounts is one of those reform so that the foreign exchange position can be easily strengthened. Any individual, firm or a company whether resident or non-resident can open this account in current saving and term deposit account nature respectively.

2. Borrowing from Central bank

The commercial banks in time of emergency borrow loans from central bank of a country. The central bank extends help as and when the financial help is required by the commercial banks because it also acts as a lender of last resort.

3. Other sources

Bank also raise funds by issuing bonds, debentures, cash – certificates etc. though it is not a common source but it is dependable source of borrowing by commercial banks.

Q. 13 What are the causes of nationalization of bank in 1974? Explain the advantages and disadvantages of such nationalization.

Nationalization of Bank

> ***"Nationalization is the act of converting privately owned resources into one owned by central government."*** (Millard)

Nationalization of bank means the transfer of any bank from private to government. Government of Pakistan nationalized all commercial banks on 1st January, 1974. There were 23 scheduled banks in the country that time with 2942 branches. The government set up Pakistan Banking Council (PBC) to run the administration of nationalized banks.

CAUSES OF NATIONALIZATION OF BANKS

1. Concentration of wealth
200 families borrowed 75% of total loans and advances at that time. Many small producers were unable to get loan. The result was concentration of wealth in few hands.
2. Use of loans
Banks were giving loans to persons who were in a position to repay the loans and were careless about use of loans. Loans were used for black marketing & speculation etc.
3. Unbalanced distribution of credit
A major portion of credit was given to industrial sector and agriculture sector was ignored badly. Only 10% credit was given to agriculture.
4. Protection of black money
Private Banks protected black money in their account because the government was not legally allowed to know the deposit figure.
5. Profit motive
In spite of aim of growth and development, banks aimed to maximize profit. The savings of the people were utilized according to the personal and not for the national interest.
6. Wasteful competition
Banks engaged themselves in a wasteful competition race. This badly hampered the pace of economic growth. Heavy expenditures wee made by all banks.
7. No uniformity in job rules
There was no uniform pattern of job rules. The promotions and increment were given on the personal will of bosses and there was no security of jobs.
8. Creation of credit
In those days commercial banks were creating credit just for the sake of their profit and not for the public interest.
9. Favoritism / Nepotism
Bank owners used to appoint own relatives and gave them heavy salaries.

ADVANTAGES

1. Fair distribution of wealth
Now commercial banks gave loans in accordance with the credit policy of SBP to big industrialists, small businessmen.
2. Proper distribution of loans
Now there is a proper distribution of loans and credit is given for agriculture sector, construction of house, small business. Distribution is more balanced.
3. Better administration of banks
Government has setup an executive board for each commercial bank to run the administration of banks. On top of it there is Pakistan Banking Council also.

4. Growth of the level of the employment
After nationalization many vacancies were announced and new jobs were created by opening new branches of banks.
5. Benefit to bank employees
After nationalization the employees got many benefits. There jobs were protected, salaries were increased and allowances were raised.
6. Development of agricultural sector
Commercial banks gave special attention to agricultural sector. Now more than Rs. 10 billion is given to agriculture sector.
7. Protection of national interest
Now a huge amount of money is spent on development projects to benefits the whole nation.
8. Better working of foreign bank branches
Now only the most experienced bankers are transferred to foreign bank branches on merit.
9. Effective monetary policy
The SBP has now an effective control over commercial banks. There is uniform credit policy for all banks. Commercial banks are bound to cooperate with SBP.

DISADVANTAGES

1. Unbalanced distribution of credit
The distribution of credit is still unbalanced. According to statistics, industrial and agricultural sectors get 45% and 9% respectively, which shows that agriculture sector is still neglected.
2. Low efficiency of the employees
Bank officers have now become government officers. So they are not very commercial minded these days.
3. Favoritism
Employment in banks is now providing by Ministry of Finance. Government officials in the Ministry favour their kith and kins for jobs in the banks.

Conclusion

The objectives of nationalization have not been achieved yet. Favoritism has destroyed the commercial banks. The total amount of bad debts of banks is standing at Rs. 260.

Q. 14 W**rite a note on E-BANKING**

INTRODUCTION:

E (Electronic) Banking Is an important modern banking facility. Almost all the banks are providing this facility to their accountholders and customers by using computer technology. The evolution of electronic banking started with the use of automated teller machine (ATM) and has included telephone banking, direct bill payment, electronic funds transfer and online banking. E-Banking system enables the banking customers to access the accounts, withdraw amount from accounts, bill payments and obtain information about the banking products and service during 24 hours through network.

DEFINITION:

‘’ E-banking can be defined as the automatic delivery of banking products and services to customers through interactive electronic communication “.

ETO 2002: The central bank of Pakistan (State bank of Pakistan) issued Electronic Transactions Ordinance 2002 to meet the modern requirements and tends of banking sector. The main objective of the said ordinance was to provide better, modern and instant facilities to their customers.

PERSPECTIVE OF E-BANKING

The perspective of E-banking is based on the following factors:

1. Communication Perspective: The motive of communication is to get familiar with the client and help the client getting familiar with you. Communication leads to information which is an important commercial weapon. E-banking has made the information about a product more important than a product itself. The new IT products like internet, web advertisement, online system have increased opportunities to inform the world about the products.

2. Business Perspective: The commercial purpose comes next that the use of IT products for business dealing and operations makes the business easy. With the help of IT products the businessmen can record the transactions and generate required reports immediately.

3. Service Perspective: Think of the best can get out of IT products. Don’t just think about business. Let your mind go to the factors like customer satisfaction, customer support, reputation etc. All these factors illuminate the service perspective.

4. Online Perspective: It means doing online business where there is no physical contact between customer and bank. It makes the banking business cross all borders and boundaries.

ADVANTAGES OF E-BANKING

The benefits of E-banking can explained under following three heads.

1. Benefits to customers
2. Benefits to bankers
3. Benefits to economy

BENEFITS TO CUSTOMERS

I. Customer can withdraw cash at any time through ATMs
II. Besides withdrawing cash customers can also have mini bank statements at these ATMs.
III. Through internet banking customer can operate his account while setting n his office or home.
IV. E-banking has also greatly help in payment of utility bills. Now there is no need to stand in long queues outside banks for this purpose.
V. The growth of credit card usage also owes greatly to E-banking. Now a customer can shop worldwide without any need of caring paper money with him

BENEFITS TO BANKERS

I. The growth of E-banking has greatly helped the banks in controlling their overheads and operating cost.
II. Now, the customers can make payment, obtain bank statements and information about different bank schemes through ATMs and websites of the banks, which helps the banks in improving their performance.

III. E-banking provides not only modern banking facilities to the people but also helps in making their business tasks easy. Due to this, the dealings of the people with banks have increased to a great extent and led to the growth of banking industry.

IV. Electronic banking has greatly helps the banks to reduce the paper and manual work. Due to this, now the banks can keep their records more accurate and up to date.

BENEFITS TO ECONOMY

I. E-banking has greatly service both the general public and the banking industry. This has resulted in creation of a better enabling environment that supports the growth of productivity and prosperity.

II. The people are getting more employment opportunities due to the growth of economic sector and banking system in the country. Moreover, the standard of linking of the people is also improving due to increased n their income

PRODUSTS OF E-BANKING

The commercial banks are providing following services (products) to their customers through E-banking

1. Credit Card

“ A credit card is part of system of payments, issued to users of system. It is a small plastic card entitling its holders to buy goods and services based on the holders promise to pay for these goods and services.

CHARACTERISTICS

Following are the characteristics of credit card.

I. **Magnetic strip:** Magnetic lining is drawn on credit cards, which contains specific number or secret code. It is also called DATA STRIP.

II. **Electronic Chip:** It is a data storage device, which is built in the card to record particular data like reward points and redeemable points.

III. **Specific Number:** Every card has a specific number, which is usually of 12 to 16 digits.

IV. **Picture:** Bank also issue such credit cards, which possess the photograph of the cardholder.

V. **Signature:** Credit cards also contains the signature of holder.

VI. **Name:** The name o the holder is written on the card.

VII. **Non-Transferable:** Credit card is non-transferable and only card owner can use it.

VIII. **Name of Bank:** Every credit card has the name of issuing bank.

IX. **Fixed amount:** Bank fixes the limit of amount according to the financial position of the customer. This limit is called floor limit and a customer cannot buy more than the fixed amount of this card.

X. **Payment to Bank:** Every cardholder pays minimum fixed amount from monthly bills ans on balance interest is charged at the various rate from 2.5% to 3%.

XI. **Renewal:** Credit card is issued for a year and can be renewed after a year.

XII. **Scope:** This card is useful for both local and foreign payments.

XIII. **Cancellation:** If cardholder does not make the payment to bank on due date then firstly his fixed limit of amount is reduced and the card is cancelled afterwards.

MERITS

The credit card issued by commercial banks provide following benefits.

I. **Easy Payments:** The credit card holder can make immediate payment of goods purchased without using cash (paper money).

II. **Facility of Payment:** Banks allows a specified time to credit cardholder for the payment of goods purchased. This allowed period might extend to about fifty days.

III. **International Payments:** The credit cards are not only used for domestic payments but also used to buy goods and services in foreign countries.

IV. **Loan Facility:** The credit cardholder can obtain cash loan from banks in the hour of need through credit card up to a certain limit.

V. **No Need to Carry Cash:** If a person is carrying cash then there may be a chance of its theft or loss. Thus, the person who transacts through credit card gets himself free from the protection of money (cash).

VI. **Proof of Payment:** The person (buyer) who makes payment by credit card gets the proofs of his payment because the transactions made through credit card are clearly written on the bill of credit card.

VII. **Growth of Banking System:** The use of credit card makes the transaction easy. So, the people are getting maximum benefits to its use and banking sector is growing.

2. Debit Card

“ A plastic card issued by a bank to a depositor, encoded so that it may be used in ATMs or in POS (point of sale) systems, like swapping machine”.

(MERITS)

I. **Easy Payments:** The debit cardholder can make the payment goods purchased on the spot without using money (cash).

II. **No Cash Required:** The user of debit card does not need to keep money (cash) with him. Thus, he gets himself free from the tension of protecting money.

III. **International Payment:** Debit card is useful in making payment of goods purchased both locally and internationally.

IV. **Increased in Bank’s Income:** The use of debit card not only increases the transactions through bank but also augments the number of bank’s customers, which results in more income for bank.

V. **Proof of Payment:** The payment made by debit card for goods purchased is actually a payment through bank, which is recorded in the computer of bank. The customer gets the detail of his transactions (payment) when he receives his bank statement.

3. Automated Teller Machine

“It is an unattended computer terminal that performs basic teller functions when a card holder inserts a card into A.T.M (Auto Mated Teller Machine) and enters the correct pin code on 24 hour basis “.

HOW DOES ATM WORK?

An ATM is simply a data terminal with two inputs and four output device. Like any other data terminal, the ATM has to connect to, and communicate through, a host processor. The host processor is analogous to an internet service provider (ISP) in that it is the gateway through which all the various ATM networks become available to the card holder (The person wanting the cash).

Most host processors can support either leased-line or dialup machine. Leased-line machine connect directly to the host processor through a four-wire, point-to-point, dedicated telephone .The Dial-up machine connect to the host processor (through a normal phone line using a modem and a tool-free number, or through an internet service provider using a local access number dialed by modem.

Leased-Line ATM are preferred for very high volume locations because of their thru-put capacity, and dial-up ATMs are preferred for dial merchant locations where cost is a greater factor than thru-put. The dial cost for a dial-up machine is less than half that for a leased-line machine.

The host processor may be owned by a bank or financial situation, or a may be owned by an independent service provider. Bank operated processors normally support only bank owned machines, whereas independent processors support merchant-owned machines.

ATM Card:

A card used to withdraw money from automated teller machine is called ATM card. A person having sufficient amount in the bank account can use this card. A specific number is printed on every ATM card. The card holder is also allotted a pin code to use ATM cards. Only the card holder knows the allotted pin code. The customer has to enter pin code after inserting the card in ATM to withdraw money. The customer withdraw money only up to a certain limit from ATM at one time.

Withdrawal through ATM:

The following steps are taken to withdraw money from an ATM:

I. ATM card is inserted in specified part of the machine.
II. Pin code is entered when a massage appears on the screen of machine.
III. After this, the customer selects an account from different account appeared on the screen.
IV. To withdraw the required amount, the customer selects one amount from the different amount appeared on screen.
V. The machine will send the card out from the specified part after completing a particular process.
VI. When the customer gets his card from specified part, the required amount comes out from another specified part immediately.

ATM Services Charges:

The bank receives nominal service charges from account holders for providing ATM facility. Different banks receives service charges at different rates for example:

	Bank's Name	**ATM service charges**
I.	Muslim Commercial Bank	RS. 200 per annum
II.	Allied Bank Limited	RS. 250 per annum
III.	National Bank of Pakistan	RS. 3 per transaction

(MERITS OF ATM)

I. Easy Use:

The use of ATM is very easy and even an illiterate person easily withdraw the money through ATM.

II. Round the Clock FACILITY:

The amount can be withdrawn from bank account not only during banking hours but also after banking hours.

III. From any Branch of Bank:

The customer keeping in view his own convenience can withdraw money from ATM of his bank and its branches but also from any other bank.

IV. Time saving:

The customer spends very less time to withdraw money from ATM because he does not need to write any cheque and wait for his turn.

V. Mini Statement:

The customer can check his balance with bank through ATM. Moreover, he can also obtain mini statement to collate his previous transactions.

4. Online Banking

" Online banking/Internet banking allows customers to conduct commercial transactions on a secure website operated by their retail of all bank credit union or building society".

On line banking is another important facility or product of E-banking. The commercial banks provide following facilities through on line banking.

Depositing the Money:

In on line banking the customer can deposit money in his account in any place or city provided that the branch in which he is depositing the money has on line banking facility.

Withdrawal from Bank:

In on line banking, the accountholder of bank's one branch can withdraw money by presenting cheque to another branch. The branch of the bank where cheque is presented for payment certifies the balance and specimen signature of the accountholder through fax machine or internet and then makes the payment of cheque.

Transfer or payment of Money:

In on line banking, an accountholder can transfer money from his account to another account without using a cheque. Thud an amount can also be transferred from one account to another to settle the transaction or the payment.

6. Mobile Phone/ Phone Banking

Under E-banking, the customers can deal or pass orders to their banks through mobile phones / phone without visiting the bank. The customers can check their account balances, and make various payments sending SMS (Few required the voice) through mobile phones / phones. Mobile phone / phone banking services are available to customers around the clock.

Q. 15 Write a note on ISLAMIC BANKING.

RIBA AND INTEREST

INTRODUCTION:

Why does GOD permit trade and forbid usury? Capital invested in trade brings excess called profit. Capital invested in banks also brings excess called interest. GOD disallows one-excess and permits another. The difference is that profits are the result of initiative, enterprise and efficiency. Profits results after a definitive value creating process, which is not the case with interest. The interest may even handicap a value creating or productive process and very often it does.
Another fundamental difference between interest and profit is that the interest is fixed while the profit fluctuates. In the case of interest, return is predetermined and one can be sure of it. In case of profit, one has to put in effort in order to ensure it.
If a banking structure could be worked out in such a way that the return for capital would fluctuate according to the actual profits accrued from it, ISLAM would have no objection to it. In that case, it would be a developed form of “SHIRKAT” , which is already recognized in ISLAMIC Jurisprudence.
What the Holy Quran forbids in a fix return for the use of money, irrespective of the profit gained or the loss sustained by the borrower. In short, Riba or interest means fixed return for the use of money. It is always prohibited whether it results from the “loans of gold and silver” or “economic credit”, which is the product of modern banking and finance.

RIBA :

‘ RBBA’ is an Arabic word. It means increased, addition, expansion or growth.
In banking and economic scenario, it means the additional amount, which a lender recovers from the borrower according to the fixed rate over and above the principal sum.

Interest:

I. ***“Interest is the charge for the use of money”.*** (American Encyclopedia)
II. ***“Interest is the price paid for the use of credit or money.”***(Britain Encyclopedia)

PROHIBITION OF RIBA IN THE QURAN

Riba or interest has been prohibited in Islam. The following verses from the Holy Quran prove this fact.
“O ye who believe! Devolve not riba, doubled and multiplied; but fear Allah; that ye may (really prosper): [3 : 130]
“That they took riba, though they were forbidden; and that they devoured men’s substance wrongfully. We have prepared for those among them who reject faith , a grievous punishment.” [4 : 161]

PROBLEMS OF INTEREST BASED SYSTEM

1. **Interest Frustrates Goal Realization:**

Financial intermediation on the basis of interest frustrates the realization of the humanitarian goals such as need-fulfillment, full employment, equitable distribution of income and wealth and economic stability.
It allocates financial resources among borrowers on the criteria of their ability to provide acceptable collateral to guarantee the repayment of the principal and sufficient cash flow to service the debt. End use of financial resources does not normally constitute the main criteria. Financial resources hence go mainly to the rich who fulfill both these criteria, and to governments, which, it is assumed, will always be able to service their debts.
Islam therefore, prohibit interest like other major religions do and organizes financial intermediation on the basis o profit or loss sharing. The financier is not assured of a fixed, pre-determined rate of return. His return is linked to the ultimate outcomes of the business finances.

2. **Injustice and Exploitation:**

It can be on the part of the lender or the borrower. For example, if a loan has been obtained at 15% and the borrower, utilizing this capital, makes a profit of 40% then the lender is being exploited because the profit has been shared justly. On the other hand, if the borrower sustains a loss of 40%, the borrower gets exploited, because in effect he loses 55% (40% loss on interest + 15% interest).

3. **Inequitable Distribution of Wealth:**

The interest-based financial intermediation relies heavily in the collateral, giving inadequate consideration to the strength of the project or the ultimate use of financing. Thus, while deposits come from a cross-section of society, their benefit goes mainly to the rich.
The Islamic financial system can be more conductive to the realization of equity. Risk/ reward sharing would compel the financier to give due consideration to the strength of the project, thus making it possible for even the poor but competent entrepreneur to get financing if they have worthwhile projects.

4. **Economic Instability:**

The rate of interest has become one of the most important destabilizing factor in the present day world economy. The high degree of interest rate volatility injects an uncertainty in the total return on invested capital (interest + profit). This makes it difficult to take long-term investment decisions with confidence. It drives borrowers and lenders alike into the shorter end of the financial market.

In a wholly equity-based system, the entrepreneur's share in the total return on capital would depend on the profit-sharing ratio and the ultimate outcome of the business. The profit-sharing ratio between the entrepreneur and the financier cannot fluctuate from day to day or even from month to month like the rate of interest does. The profit sharing ratio fluctuates with the change in economic conditions.

PAKISTAN & ISLAMIC BANKING

Pakistan was founded on the basis of the two-nation theory. The ultimate desire was to have a homeland where Muslims could lead their lives according to the eternal and shining teachings of Islam. The father of the nation, Quaid-e-Azam Muhammad Ali Jinnah, made it clear on number of occasions with Islamic theme of social justice, welfare and contentness. Afterwards the Objective Resolution of 1949 further highlighted the matter in a definite way. A part of this resolution read as follows.

"And the Muslims shall be enabled to order their lives in the individual and collective sphere in accordance with the teachings and requirements of Islam as set out in the Holy Quran and Sunnah."

But unfortunately, the whole banking system in Pakistan was based on interest. Depositors were paid interest on these loans. So, there was a need to establish an interest free banking system in the country. It was a challenge, because all banking system is being operated on the basis of interest in all over the world. But in 1977, the process of Islamization of banking system was started. In October 1977, Council of Islamic Ideology was charged with responsibility of bringing about Islamic economic and banking system. The council constituted a panel of economists and bankers, which was assigned to prepare a plan for non-interest system.

Report of Council:

The panel of experts submitted its report to the Council in February 1980 and after considering the suggestions given in the report, the Council gave its formal report to the Government in June, 1980. The report stated that:

1. Real alternative to the interest under an Islamic system is profit or loss sharing deposits and Qarz-e-Hasana.
2. To make successful interest free banking system, the government will have to carry a thorough appraisal and reforms of tax system.
3. Elimination of interest is important for interest free economy but it Is a part of overall value system of Islam, some other reforms will have to be make.
4. Council suggested following method of non-interest banking system:
    a. Service charges.
    b. Leasing.
    c. Hire purchases.
    d. Special facilities.
5. Report also gave important suggestions in respect of commercial banks, specialized credit institutions and for insurance companies.

Criticism on the report:

Many scholars and Islamic experts criticized the final report of Islamic Ideology Council. The critics were of the view that council has taken a very superficial a view of state of affairs and confronting problems. They stressed the fact that unless basic legal and legislative reforms are made and a huge coactive effort is made to promote particular set of value, elimination of interest alone would not serve the purpose. The critics also expressed the fear that although many of the strategies purposed by the council are remarkable, yet there are serious hurdles in making them practicable. Some experts also showed reservations that some of the plans and schemes given by the council are not fully in accordance with the Islamic principles.

SBP DIRECTIVE 1984:

After detailed study of the plan purposed by the council of Islamic ideology and criticism that was raised from different circles. SBP issued directives for elimination of interest from the economy. The directives were issued in June, 1984 and they included the following :

a) From July 1,1985 local currency deposit shall be accepted on PLS basis.
b) Banks were directed to promote the Islamic modes of trade and financing. Moreover, the banks were also advised to open special counters for this purpose.

A JUDGMENT OF FEDERAL SHARIAT COURT:

In November, 1991 Federal Shariat Court on Pakistan announced a judgment that interest understood as Rida is totally prohibited. The court in its judgment also declared that various prevailing laws or their provisions are completely against the injunctions of Islam and therefore, must be changed.

HISTORIC RULING OF SUPREME COURT:

The supreme court of Pakistan, on the matter of interest and Riba finally gave verdict on December 23, 1999. In judgment, honourable court clearly declared Riba as un-Islamic and, therefore, directed the government to eliminate interest from all transactions. The court declared a dead line of June 30, 2001 by which the government ordered to reframe rules and to create environment for the working of interest free economy.

COMMISSION FOR TRANSFORMATION:

After the judgment of supreme Court, a commission for the transformation of the economy was setup in SBP. The task of that commission was to devise the strategy in order to change the financial system to bring it in conformity with Islamic banking.

IMPLEMENTATION OF ISLAMIC BANKING IN PAKISTAN

Stage 1: Interest was first eliminated from July 1979 from the transactions of NIT, HBFC, ICP and SBFC.

Stage 2: From first January, 1981, profit and loss sharing saving and term deposits were introduced by commercial banks in place of simple saving and fixed deposits scheme.

Stage 3: In August, 1981, HBFC was allowed to provide finance on rent sharing basis for house building. Students were allowed Qarz-e-Hasna without interest.

Stage 4: In 1983, hire purchase system of financing was introduced.

Stage 5: From July 1, 1984 to December 31, 1984 all banks in the country were to make finance available also on the basis of Islamic modes of financing in addition to existing interest based system.

Stage 6: From January 1985, all types of finances provided by the bank to the government and their agencies were permissible on Islamic basis only.

Stage 7: From April 1985. All types of finances provided by the banks to all clients were to be on Islamic basis only.

Stage 8: From July 1985, all deposits were to be on the basis of participation in profit and loss of banks except current account.

INTEREST FREE MODES OF FINANCING

State Bank of Pakistan has prescribed several modes of interest free financing, which can be categorized into three groups:

1. FINANCING BY LENDING

i. Interest Free Loans with Service Charges:

- It is new concept of lending and is based on 'Ijtehad'.
- The banks are permitted to lent money free of interest and to recover only the actual service charges from the users of money.
- The maximum service charges permissible to each bank is determined by the State bank of Pakistan.
- The banks for financing of exports are using this mode of financing.

ii. Qarz-e-Hasna:

- Qarz-e-Hasna is for the benefit of an individual and the society at large.
- The banks give loans to deserving persons for their genuine consumption requirements such as marriage, education and health etc.
- Loans may also be given for setting up small businesses.
- In this financing only principal amount is payable to bank by the end of agreed period, provided that the borrower is in a position to repay the loan.
- This financing is termed as "loan to Allah" which will be rewarded by Him.

iii. Istisna:

In this mode of financing, the bank lends money to the manufacturer or industries like aircraft and shipbuilding etc. for producing or provided goods and machinery on its behalf.

2. TRADE RELATED MODES OF FINANCING

i. Mark up:

The mark up or Bai Muajjal is a purchase of goods by banks and their sale to clients at an appropriate mark up in price on deferred payment basis. The system of financing on the basis of mark up in price of deferred basis is as follows:

- The customer contacts the bank for financing the purchase of goods.
- The banks purchases the required goods and sells to him on the price mutually agreed between the bank and customer.
- The agreed price of goods is to be paid in future on a specified date by the customer to the financer or bank.
- The agreed price, which is based on the bank's cost plus a profit margin (mark up) of the bank.

ii. Mark down:

- It is a purchase of moveable or immovable property by the bank with Buy Back Agreement or otherwise.
- Under this mode of financing, the customer sells the moveable or immovable property to the bank with a promise to buy back from the bank on a future date.

iii. Leasing (Ijra):

- Leasing is a medium or long term financing instrument.

- I this trade mode of financing, the lessee (Mustagir) acquire the rights for the use of an asset from the lesser (Aajir) for a fixed agreed period of time, on the payment of a fixed amount, which may be on yearly, half-yearly or on monthly basis.
- The title of the property remains with the lesser.

iv. Hire Purchase (Ijrah-Wa-Iqtina):

- In a hire purchase deal, the bank purchases the specified goods at the request of the customer and hires them to the client on the payment of periodical installments.
- The agreed periodical hire installments are worked out in such a manner that the bank covers a fair return as well as the actual cost of the goods on full payments.
- The rights of ownership are handed over to client on the payment of full amount.

v. Development Charges:

- It is also called "Diminishing Musharaka".
- In this mode of trade financing, the bank makes advances to the customers for the development of land and property.
- The bank takes a share in the value added to the property.
- This share in the value added to the developed property is named as development charges.

vi. Salam:

- Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at future date in exchange of advance payment if price.
- Salam is allowed by the Holy Prophet (PBUH) subject to certain conditions.
- The basic purpose of this trade was to meet the need of the small farmers who required money to grow their crops and feed their family upto the time of harvest.

3. INVESTMENT MODES OF FINANCING

i. Musharaka:

- It is an agreement between the bank and its client to participate in a business as temporary partners by providing agreed amount of funds for sharing profits or losses during a specified period of time.
- The client runs business under Musharika.
- The bank examines the feasibility and profit projection so as to monitor or supervise business transactions.
- The proportion of profit to be distributed between the participants must be agreed at the time of contract. If no proportion is decided then the contract in not valid.
- The loss is shared in the ratio of capitals provided by the participants.

ii. Modaraba:

Modaraba means the business in which the subscriber (Bank-Zarib) participates with the money and the manager (Client-Modarib) with the knowledge and skill. The chief features of Modaraba are:

- Modaraba must be registered under Modaraba (Floatation and control) ordinance, 1980.
- Profit is shared in agreed ratio.
- Loss in suffered, being the investor, only by Zarib.
- Modaraba certificates are transferable.
- Modaraba may be for "Specific purpose" or for "Multiple purpose".
- It may be perpetual or for a specified period.

iii. Participation Term Certificates (PTC's):

Participation term certificate is an instrument of finance issued by company for meeting its medium and long-term capital needs. The salient features of PTC's are:

- PTC is an instrument of medium and long-term financing which has been evolved to replace debenture financing.
- The instrument Is transferable.
- Profits are shared in agreed ratio while losses are shared in the ratio of bank's and company's investments.
- Only (JSC) Joint Stock companies can raise funds for by issuing PTC's

iv. Equity Participation:

- Equity participation means sharing risks and rewards of ownership.
- Under this scheme, the bank are financer purchases the shares of the company at market price or at an agreed price.
- Profit will be shared in the form of interim or annual dividend.
- Loss will be borne in the form of reduction in the market price of the shares purchased.

v. Rent Sharing:

- Rent sharing is generally applicable to financing for the purchase or construction of house.
- The bank and the client will contribute funds, as agreed, to purchase or construct the house.
- Rent of the building will be estimated area wise, and will be shared in the ratio of their investments or as agreed upon.
- Rent may be revised after every three years.

MONEY PORTION

Q. 16 Define inflation. What are its causes and measures to control?




Inflation

1. ***“Inflation is nothing more than a sharp upward movement in the price level.”*** **(R. P. Kent)**
2. ***“Too much money chasing too few goods.”***

KINDS OF INFLATION

On the basis of rate

a) Creeping inflation

It is a situation where the increase in the price level is very slow. E.g. 2% p.a. (Japan, USA, Singapore)

b) Walking inflation

in this situation, increase in the price level is more than the creeping inflation. E.g. 5% p.a.

c) Trotting inflation

IN this situation, prices are more than they are in creeping and walking inflation. E.g. 5% to 20%.

On the basis of degree of control

a) Open inflation

It is a situation when the inflation gets out of control and can’t be controlled by government price control or similar measure.

b) Suppressed Inflation

It is situation when the inflation can be controlled by the government price control policy.

On the basis of causes

a) Demand Pull inflation

Inflation that occurs due to high demand in the economy called demand pull inflation. The higher consumption causes aggregate demand to grow, while aggregate supply lack behind. In this situation.

b) Cost pull inflation

It is the inflation that is the result of high cost of production. Production cost consists direct material and direct labour as well as factory overhead. In this situation, the supply decreases due to increase in cost of production.

c) Budgetary inflation

When the government covers the budget deficit by borrowing then there will be budgetary inflation.

d) Monetary inflation

Where there is an expansion in the currency notes in circulation then there will be monetary inflation.

c) Income inflation

The inflation that occurs from high income level. Income may increase due to change in salary or foreign remittances.

d) Profit inflation

Profit inflation is the result of the greed of businessmen. It usually occurs in such economy which is dominated by monopolies.

CAUSES OF INFLATION

1. Increase in salary or wages

Increase in salary has increase the purchasing power of the people. Wages and price follow each other. When wages are increased then prices are also increased which causes inflation.

2. Increase in export of consumer goods

When there is increase in export of consumer goods and raw goods to foreign markets, the quantity of goods is decreased in the country and price level has increased.

3. Overseas aid

The volume of foreign aid also increasing with the passage of time. Therefore when this aid is used inside the country, the quantity of money is increased and it increases the inflation.

4. Deficit financing

In Pakistan, the surplus currency is issued by the State Bank Pakistan is spent for the constructional and development work in the country which creates inflation.

5. Decrease in production

Due to agricultural and industrial backwardness, there is less production of commodities in the country. Due to which the prices have increased in the country.

6. Increase in population

The growth of population is very high which is resulting in the shortage of commodities, therefore prices have increased in the country.

7. Devaluation

Devaluation refers to the fixation of low rate of exchange of the national currency in terms of foreign currency. Due to devaluation price level increases and import becomes costly.

8. Construction of houses

Since 1970, the people are spending their savings on the purchase and construction of houses. So this expenditure has also contributed towards inflation.

9. Nationalization of industries

After the nationalization of industries in Pakistan, the investors' class is hesitated to do investment due to fear of nationalization. So hoarding is increased and prices has increased.

10. Using habits

In Pakistan, urban population feels proud in spending money on those items which are used in the advanced countries. So there is a demonstration effect also in Pakistan.

MEASURES TO REMOVE INFLATION (CONTROL)

1. Check against smuggling

The monetary punishment should be given so that the artificial shortage of commodities may be controlled and inflation can be removed.

2. Discipline

Discipline should be restored in factories and offices to improve the output of the country.

3. Change in taxation system

The taxation system should be revised in order to encourage the private sector by giving tax concession or rebate or by charging low rate of taxes on consumer goods.

4. Useful administration

The administration should be made effective and clear to increase the output of the country.

5. Restriction in expenditure

There should be a cut on the non-productive expenditure not only by government but also by the people.

6. Restriction on the import of luxury items

The import of luxury items must be restricted. It will protect us from international inflation and will be favorable for the balance of payment.

7. Increase in investment

The public and private investment in the country should be increased so that the Supply of money is equal to the supply of good in the country. Then inflation may be removed.

8. Sick industries problems

Sick industries should be handed over to private sector to promote their efficiency or productivity.

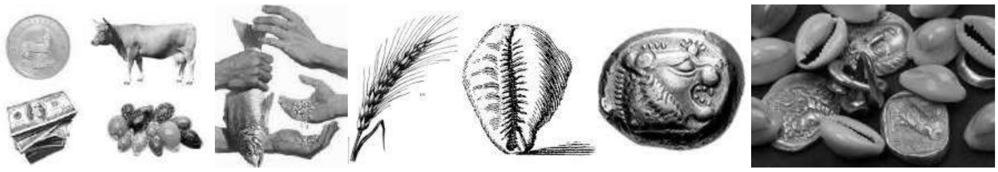
9. Check on unplanned cities

The unplanned and unregulated growth of cities should be checked which will put a check on inflation.

10. Management between monetary and fiscal policy

Government should coordinate the monetary and fiscal policy in such a manner that it should check the inflation.

Q. 17 What do you know about the evolution of money? Also discuss the qualities of good money?



Evolution of Money

To solve the problems or remove the difficulties of barter system such means of exchange were needed that could facilitate the trade or dealing of goods. In different eras, variety of goods have been using in search of such means of exchange. The detail of which is as follows:

States of Evolution

1. Commodity Money
2. Metallic Money
3. Paper Money
4. Credit Money

1. Commodity Money

In 2200 B.C. Getting fed up with barter system, the people began to use different goods as means of exchange like skins of animals, sheep, shells, goats, bows and arrows etc. These means of exchange also had most of the defects of barter system. Therefore, this system could not prevail for long time and the people found metallic money.

2. Metallic Money

Metallic money is the right solution of most for the difficulties of barter system and is the real beginning of money. In 500 B.C. the people used gold and silver as means of exchange for sale or purchases. Then standard coins of gold and silver came into use.

3. Paper Money

In the beginning, in order to transfer money safely, economically and conveniently, the people deposited their metallic coins to trustworthy persons and got receipts in this regard. These receipts could be used for the purchase of goods on other places. Since these trustworthy people had good reputation so that receipts were accepted as money. Thus, these receipts were primal paper money. Afterwards, when the use for these receipts spread then government gook the responsibilities of the work of these trustworthy people. In 1700 A.D government organized this work and started issuing currency notes. These notes were declared to be accepted legally. In this way, paper money prevailed.

4. Credit Money

In the present age, credit money i.e. cheque, pay order, draft, traveler cheque and credit card etc. in addition to paper money is also used in order to make business dealings more economical, easier and safer. The acceptance of credit money (bank money) is not legally compulsory. But its use is increasing day by day due to convenience, economy and safety.

<u>Qualities of good money</u>

1. Acceptable

Good money is accepted by all because it serves as medium of exchange. Gold and silver coins are generally acceptable.

2. Transportable

Good money must be transferable easily. It should have more values in small quantity. Passengers can easily carry due to small weight.

3. Durable

Money should be durable. The good money must not lose its value with the passage of time.

4. Homogeneous

Good money must be of the same quality and quantity. The color size of money should be different to easily identifiable.

5. Divisible

Money should always be divisible. Small units of money are needed d for making the small payments.

6. Malleable

Good money must be malleable. Malleable money has impression on its face and back for recognition.

7. Stable

Money should be stable in its value. A change its value will bring changes in the prices of goods and services.

8. Recognizable

Good money should be recognized by touch or sight. Paper money should be good quality coloring.

9. Scarce

Money must be limited in supply as compared to demand for it. The quality brings the people to have more and more for meeting their basic needs.

10. Storable

The storability is the quality of good money. The rupee notes and coins have this quality.

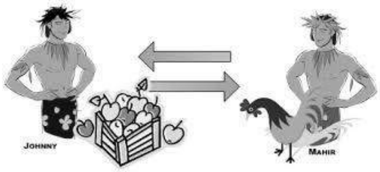
11. Elastic

The good money has the quality of elasticity. The business needs change season to season. The paper money has this quality of increase and decrease.

12. Economical

The good money has economical quality. The cost of printing currency notes and minting coins must be lower.

Q. 18 What is Barter System? Discuss its effects and removals.



White traders bartering with the Indians.

Barter System

1. ***"The direct exchange of one commodity for another without the use of money."*** (H. S. Sloan)
2. ***"Barter is the direct exchange of goods and services without a means of payment or a unit of account"*** (R.H. Parker)

There is no involvement of money in this system. In this form of business only commodities and services is exchange with one another. Barter is the system of trade that existed in the economy before the invention of money. For example if Ahmed gives me his cow in return for my two goats, the transaction so taking place between myself and Ahmed will be termed as barter. Barter is the direct exchange of goods for goods was the stage of monetary development.

Barter is possible if following conditions are fulfilled

1. Wants should be very limited.
2. People must be living in a limited area.

INCONVENIENCE OR DEFECTS OR PROBLEMS

As the growing culture, society and growing wants some difficulties were felt in the barter system of exchange. The following are the difficulties found in this system and were the reason of failure of this system.

1. Measurement problem

Barter system is the old system in which there was no concept of economy. Under barter system there was no proper system to measure GDP on macro level.

2. Double Coincidence of Wants

Trade in barter requires double coincidence of wants. For example, If a cow has to be exchanged for three goats, no trade will take place unless a person is found who not only has three goats but also wants exchange them for a cow.

3. Lack of Storing Wealth

Business and people both need to get their wealth be stored. In barter economy wealth has to be stored and saved in the form of goods which was very inconvenient and costly.

4. Common Standard of Value

In a barter system there is no common standard by which the value of goods to be exchanged can be measured.

5. Transferred Wealth

The transfer of goods from one place of another was very difficult if not impossible and costly.

6. Subdivision

In barter there is always a problem of lack of subdivision. Animals were traded for goods so it was impossible to subdivide them. For example a person has a horse and he needs a piece of cloth. Now what part of his horse is equivalent to piece of cloth.

7. Deferred Payments

There was great difficulty in lending goods under the barter. The value of goods may decrease with the passage of time by which one may suffer loss.

8. Revenue Collection

If commodities are collected by revenue department, the goods particularly perishable will not be stored for a longer period. They will lose their value as time passes.

9. Exchange

There was no proper method of exchange. Flow of commodities was difficult and sometimes impossible. Due to this difficulty barter system was failed.

REMOVAL OF PROBLEMS

Due to difficulties in barter system, there is only one solution for these problems. The use of money has removed many inconvenience of barter as discussed under:

1. Subdivision

Money has solved this problem by functioning as a medium of exchange.

2. Storing Wealth

This problem has been removed by money because wealth can be easily stored in the form of money.

3. Measuring Value

Money has removed this difficulty by performing as a common standard of value. The value of goods can be easily stated in money prices.

4. Future Payments

Money has removed this problem because when future payments are stated in monetary units, every thing is quite clear.

5. Transferring Wealth

There is no such inconvenience when money is used and wealth can easily be transferred.

6. Double Coincidence of Wants

Money has removed this problem by serving as a medium of exchange.

7. Revenue Collection

When money is used and revenue can easily be collected through money.

8. Exists at large

If someone wants to expand the scale of trade, he cannot do so under barter system.

Conclusion

Barter was adopted in old days but it prevails these days too. Barter system has many difficulties and problems, so it is better for every one to use money. In this time many developing countries are using to the barter system. Even Pakistan is doing barter trade with counties like China & Russia.

Q. 19 What is paper money? Describe its advantages and disadvantages.

Paper Money

"Paper money means document with a value stated on them but having no value in them" (Greener)

Paper money means the notes of different values issued by the central bank or by the governmet. Papers was used in China for the first time. Iran used the paper money after China. Now in all developed and under developed countries of the word, paper money is used

Classes of paper money

1. Convertible paper money

The convertible paper money is that which can be exchanged for full-bodied money and can be issued by having reserve of gold and silver etc. The government does not maintain hundred percent reserves against such money.

2. Inconvertible paper money

The inconvertible paper money cannot be exchanged for gold and silver. The money is issued on the written promise of the government. The example of this money is that in fist world war German mar was issued.

3. Fiat money

A form of money declared as a medium of exchange by the central authority is known as fiat paper money.

Advantages

1. Easy counting

The counting of paper money is easier than metallic money.

2. Easy holding

The paper money has lesser weight than metallic money. It is easy to handle paper money than coins if people want to keep large amount with them.

3. Low cost

The printing cost of paper money is lower than the minting charges of metallic money.

4. Metal saving

Metal saving is possible due to issue of paper money. Metal can be used for other purposes like making jewelry etc.

5. No loss due to depreciation

The metallic money depreciates due to wear and tear. The paper money helps to control such loss.

6. Elastic system

Paper money makes the monetary system more elastic than metallic money. The volume of money supply can be increased or decreased.

7. Stable value

The value of paper money can be kept stable by regulating the issue of paper money.

8. Easy transfer

The transfer of paper money from one place to another is easy and cheaper than metallic money.

9. Emergency needs

Paper money is a friend in peace and war. Whenever there are crises the government or central bank can issue notes easily.

10. Better use of metals

The paper money helps to use metallic reserves for productive purposes. The metal can be used for making jewellery or other purposes.

11. Less storage expenses

The inconvertible paper does not require cent percent gold reserves behind it. A part of reserve is kept behind issue.

Disadvantages

1. Limited circulation

Paper money is used within one country. It cannot be used for making international payments.

2. Short life

Paper money is less durable than metallic money. The life of a paper note is six months while coins remain for sixty years.

3. Unfit for small value

The change of 1 rupee note is not available in paper money. The metal is suitable for small value.

4. Fiat money

Paper money is accepted by order of government only. Due to automatic decrease in the value of money, government cannot do anything in this regard.

5. Over issue

Printing of paper money is very ease for government when they need it. The prices are increased and value of money goes down.

6. Declining exchange rate

Value of paper money is always fluctuating day by day. This can be the reason for change in exchange rate with the other currencies.

7. Unfavorable balance of payments

The import of goods is possible through foreign currency. More money is needed to buy foreign currency when there is devaluation.

Conclusion

It is fact that paper money has some defects but it is better than metals and helpful for removing economic problems. It is a source of blessing for mankind. However, when it is not properly managed, it becomes source of danger and confusion.

Q. 20 What are principles of note issue? Discuss the methods of note issue. Which method is best and why?

1. Currency Principle

Mr. Overstone member of English parliament presented this principle. He says that paper notes are better than metallic money. The central bank keeps gold for full value of notes issued. The quantity of notes can vary as per quantity of imports and exports. When the gold reserves decrease the notes issued are taken back by the bank. There is no danger of over-issue. There can be stability in price level and exchange rates.

Advantages

If this principle is adopted, the value of money will be kept stable because over issue is not possible due to security of gold. It will provide confidence to the public because it is full convertible money. The increase in gold will increase the quantity of notes in circulation and vice versa. The cost of printing the paper money is low as compared to minting of coins.

Disadvantages

This principle is inelastic because without gold reserve currency notes cannot be issued. It is also very expensive because it will need gold for reserve and gold will be stuck up and will be used for other productive purposes.

2. Banking Principle

J. W. Gilbert was a leading banker in England. He says that a percentage of notes in circulation should be covered by gold. The total money supply can expand or contract according to the needs of trade and industry. This system is elastic and suitable for the requirements of the country. A part of the paper currency is covered by gold so the inflow and the outflow the gold do no affect the total money supply.

Advantages

This is an elastic system in which 100% gold reserve is not required. It is considered better for the development. It is economical because it needs less gold reserves for the issue of notes. People still enjoy confidence under this system. It is popular in entire world.

Disadvantages

Under this principle there is always a danger of over issue of currency notes. The money issued beyond limit lead to inflation and increases the prices. During economic crises governments do not follow this rule and over issue the currency notes. This principle can also be exercised by the note issuing authorities in emergencies which lead to economic crises.

Methods of Notes issue

1. Fixed Fiduciary System

The central bank of the country is allowed to issue a fixed amount of notes without any metallic reserve. This portion is called fiduciary issue. It is backed by government securities. The notes issued above this amount are covered by 100% gold reserve. This method was adopted by United Kingdom, Norway and Japan.

Advantage

This system provides security for the convertibility of notes. It is fit for those countries where the people use cheques for making payments and requirements of currency do not change from season to season.

Disadvantage

This is not suitable for developing and poor countries where expansion and contraction is needed from season to season.

2. Bond deposit

The central bank issues notes against 100% backing of government bonds. The bonds are written promises of the government to pay the amount on due date. In U.S.A. some banks were permitted to issue national bank notes unto the amount of approved government bond held as well as paid up capital of these banks.

Advantages

It is worth while to note that metallic reserves were not needed for issue of notes. There was a saving of metal, which could be used elsewhere. The monetary authorities and the government were in a position to manipulate the situation.

Disadvantage

It was rigid system because the banks were not allowed to issue notes beyond value of government bonds and their paid up capital. It was a maximum limit so this method was considered inelastic.

3. Fixed maximum issue

In this method a maximum amount of notes is fixed which can be issued without metallic reserves. This limit is usually well above the annual average requirements of the country. This maximum can be raised from time to time to meet the growing needs of the country. France has used this system before 1928.

Advantages

This method is economical because metallic reserves are not needed. It is flexible because the government can raise the maximum limit. It spares metallic reserves various other uses.

Disadvantages

The flexibility encourages the government for over-issue. The inflation affects the purchasing power of the people.

4. Proportional reserve system

The central bank keeps a percentage in gold and remaining portion in government securities against notes issue. Generally 25% to 40% is kept in gold or silver before issue of money. A percentage of money is to be kept in gold for new issue of money. This method was applied in Germany in 1875 and U.S.A in 1914.

Advantages

It is elastic method so money can be expanded and contracted to meet the requirements of trade and industry. It is suitable for the developing countries.

Disadvantages

The contraction of money in this method is not always possible. The metallic reserves remain idle. During emergencies notes are not convertible into gold because cent percent reserves are not kept.

5. Minimum Proportional reserve system

Under this system the central bank is allowed to keep a percentage of reserve in gold, foreign exchange, foreign bills and deposits in foreign countries working under gold standard. This method is a variation of the proportional reserve system. This method was used in India before October 1957 and of the total currency issued 40% was kept in gold coins, gold and sterling securities.

Advantages

There is economy of gold because whole reserves are not in gold. This method is elastic because expansion and contraction is possible whenever it is needed. The stability in exchange rates may be maintained because over issue without reserve is not allowed.

Disadvantages

This method has all the defects of the proportional reserve system.

<u>Method of note issue adopted in Pakistan</u>

Pakistan has used minimum reserve system upto 1965. Under this method 30% was kept in gold coin, god and silver bullion but after 1965 minimum reserve system was adopted.

<u>The right principle of note-issue</u>

From the above discussion, it appears that a sound system on note-issue should ensure elasticity, economy, and simplicity, internal & external stability. The right method is that which easily be changed according to the needs of current situation with illegal and illogical reasons.

Q. 21 Define index number. Explain uses and limitations. OR How the value of money is measured?

Index number

> ***“Index number is a measure of relative changes occurring in a series of values compared with base year.”*** **(D. Greenwald)**

CREATION OF INDEX NUMBERS

1. Base year

First of all base year is selected.

2. Commodities

The second step is the selection of commodities.

3. Prices

The retail prices are used to prepare cost of living index number. These prices can be consumer prices also.

4. Price relatives

The prices of goods are converted into percentage. The price of current year is divided by prices of base year. The result is known as price relatives or index.

5. Averages

The rate of changes in prices is not the same. It is necessary to take the average prices changes to get the central idea about changes in price level.

6. Choice of weights

The amount used to buy such goods is different. There is a need to use weight on the basis of its importance in terms of money value.

SIMPLE INDEX NUMBERS

Commodities	Unit	Prices in 2000(Rupees)	Prices in 2009 (Rupees)
Sugar	Kg.	20	40
Milk	Litre	20	40
Cloth	Metre	40	50
Total		**80**	**130**

Index Number = $\frac{\text{Current Year Price}}{\text{Base Year Price}}$ x 100 = 130 x 100 / 80 = 163%

WEIGHTED INDEX NUMBERS

	Year 2000				Year 2009			
Commodity	**Prices**	**Price relative**	**Weight**	**Price Relative**	**Price**	**Price Relative**	**Weight**	**Weighted Price Relative**
Sugar	20	100	8	800	40	40/20x100=200	8	**200x8=1,600**
Milk	20	100	5	500	40	40/20x100=200	5	**200x5=1,000**
Cloth	40	100	3	300	50	50/40x100=125	3	**125x3=375**
Total			**16**	**1600**			**16**	**2,975**
Index No.	**Average= 1600/16=100**					**Average = 2,975/16= 185.94**		

Now we can see that the prices have been increased 186 times than the base year prices.

ADVANTAGES

1. Changes in price level

Through index number consumers can check the rate of inflation and can adjust their income.

2. Change in production level

Business can measure the level of their production as compared with base year. Government can also decide the level of import and export.

3. Change in volume of trade

Index numbers help to note the volume of local and foreign trade.

4. Forecast business conditions

Index numbers are useful to forecast business conditions of any country.

5. Changes in investment

Index numbers are helpful to note the changes in investment. The stock exchange prepares index number to show the investments made by people from period to period.

6. Wages measurement

The living standards of workers can be checked with the help of this tool. The revision in wages can be made after certain period.

7. Performance of students

The teachers can check their efficiency through such index. The government can note the results to take remedial action for improving the efficiency of the teachers and students.

LIMITATIONS OR DISADVANTAGES

1. Not suitable for all objectives

It is not suitable for all purposes. Price index number cannot give information about quantity of goods to be produced by manufacturers.

2. Results differ due to different methods

Different results are available due to different methods of calculation index numbers.

3. Not reliable over long period

The comparison of facts and figures in the short period can provide their results. The exact comparison is not possible due to diverse conditions in both periods.

4. Not free from errors due to sampling

The collection of data requires complete accuracy which is not possible in index number.

5. Approximation

The index numbers provide rough results or approximation. In the absence of exact results one cannot plan his activities.

6. Various weights

The use of various weights provides different results. The person cannot get exact information. The diverse answer due to different weight can put the people in poor position.

7. Few commodities People use large number of goods and services in their daily life. Few numbers of goods are used to prepare index number.

Q. 22 Discuss money market and capital in detail and also differentiate between capital market and money market.




Money Market

> **"Money market is a collection of short term scattered financial institutions engaged in the buying & selling of short term securities."**

Examples: Treasury bills, commercial papers, banker's acceptances, Euro/Dollar Accounts

Essentials of developed money market

There should be a central bank, specialized financial institutions and proper banking system in the country for development of a money market.

Players of money market

Central bank, commercial banks, discount houses, saving banks, stock exchange, finance corporations and other financial institutions are players of money market.

Instruments of money market

Promissory note, bills of exchange, treasure bills, bank acceptances and deposit certificates are instruments of money market.

FUNCTIONS OF MONEY MARKET

1. Supply of funds
Money market provides funds and a source of income for its members.

2. Earn reasonable profit
Funds are issued for earning profit. Low rate is charged on short term funds and high on long term funds.

3. Recall loans
When banks need loans they call back the short term loans instead of borrowing from central bank.

4. Resource allocation
The available resources are allocated for agriculture, industry, import, export and investment.

5. Funds transfer
The customers can ask members for transfer of money from one area to another.

6. Near money
Near money is that which can be quickly converted into currency.

7. Government borrowings
Money market buys and sells government securities. Members buy treasury bills for providing loans to the government.

Importance of money market It deals in bills of exchange and treasury bills. Commercial banks can invest their excess short term funds in profitable areas. Money market provides guidance for central bank for its policies. It affects the rate of capital market also. Money market keeps the rates of interest within certain limits.

Capital Market

> **"A part of financial market dealing in long term securities is categorized as capital market."**

Examples: Stock exchange (KSE, LSE, ISE)

Instruments of capital market

Investment bonds, shares of companies, term finance certificates, certificates of investments, term deposits and saving schemes are the instruments of capital market.

Players of capital market

Central bank, commercial banks, development banks, investment banks, leasing companies, stock exchanges, pension funds and insurance companies are players of capital market.

FUNCTIONS OF CAPITAL MARKET

1. Allocation of resources

The savings of people is allocated among different sectors of the economy. They collect funds from general public and provide loans to businesses.

2. Monitoring

Members monitor the working of capital market. The research and development section of capital markets can monitor the activities of the capital market.

3. Distribution

The capital market is responsible for distribution of available funds. The funds must be available for all business and in all areas of the country.

Role of capital market

It mobilizes the savings of general public. Stock market encourages people to invest their saving for earning income. It also increases the size of stock market. Capital market can attract foreign investors. It keeps prices of shares stable. It provides information to information wing of stock exchange.

Difference of Money and Capital Market

Reason	Money Market	Capital Market
1. Supply of Funds	It provides funds for meeting working capital requirements.	The capital market provides funds for meeting fixed capital requirements.
2. Market Players	Discount houses, bill brokers, accepting houses etc. are players.	Stock exchange, development banks, mortgage banks, insurance companies are players in capital market.
3. Life of instruments	Money market deals in short term instruments.	Capital market deals in medium and long term instruments.
4. Rate of interest	Rate of interest is low due to short period.	Rate of interest is high due to medium/long period.
5. Borrowers	The borrowers of money market are government, producers, manufacturers, traders, importer and exporters.	Private limited companies, public limited companies and government are borrowers.
6. Transferable	The instruments of money market are highly liquid so these are transferable from member sot another member of market.	The instruments of capital market are not highly liquid so these are not easily transferable from one member to another
7. Instruments	Promissory note, bills of exchange, treasure bills and deposit certificates are its instruments.	Shares, debentures, PTC, TFC and bonds are its instruments.

Q. 23 What is meant by foreign exchange? Discuss the factors causing changes in exchange rate.

Foreign Exchange

1- "Any currency other than local currency is called foreign currency."

2- "A currency which is not a legal tender currency is termed as foreign currency." (€, £, ¥, $, Rs.)

METHODS OF FOREIGN PAYMENTS

1. Foreign Bills of exchange
It is used for international payments for purchase and sale of goods and services.

2. Foreign Bank draft
Bank drafts are purchased from bank. Draft is sent through post office.

3. Mail transfer
The order letter is sent through mail by the bank. After receipt payment is made.

4. Foreign currency
The importer can buy foreign currency from open market and can be given to exporter.

5. Telegraphic transfer
The bank receives amount from his customer and sends a telegraphic message to his agent.

6. Cheque
The account holder can draw cheque on his bank for foreign payment.

7. Credit Card
The bank can issue credit card to its customer. He can go abroad and make payments by signing the vouchers.

8. International money order
The customer can buy cheque from bank for making small payments in foreign countries.

9. Letter of credit
The importer opens an account with his bank in favour of exporter. The amount is paid into the bank. The payment is made after receipt of documents of title to goods.

10. Gold
Import can make payment in gold bullion to export.

11. Traveler's cheque
The bank can issue travelers cheque to customers who are going abroad.

12. Internet
The debtor can make foreign payments through internet. The exporter can get payment from merchant account or credit card.

Foreign Exchange market

"Foreign exchange market is a market where foreign currency can be purchased and sold."

1. Payments in other countries
Foreign exchange is a market fro making payments against letter of credit, circular notes and credit cards.

2. Acceptance of bills of importers and exports
The members of foreign exchange market accept the bills of exporters and imports.

3. Discounting bills of importers and exporters
Bills of exchange are discounted on some fewer amounts by exporters through banks.

4. Speculation

Speculation is a function of foreign exchange market. Speculators are buyers and sellers of foreign currency. They take part to earn profit through buying and selling of foreign currency.

FACTORS AFFECTING FOREIGN EXCHANGE MARKET

1. Balance of trade
The position of balance of trade affects the rate of foreign exchange market. When this balance is favorable, foreign exchange rate increases. The rate will decrease due to unfavorable balance of trade.

2. Speculation
The work of foreign exchange market is affected due to speculation. The speculators can upset exchange rate in foreign exchange market. Purchase of foreign currency can raise the rate of exchange. Sale of foreign currency can decrease the rate of exchange.

3. Interest rate
The rate of interest affects the foreign exchange market. The change in interest rate brings change in foreign exchange market.

4. Central bank intervention
There are ups and downs in foreign exchange market due to central bank intervention. Central bank can buy and sell foreign currencies. Therefore foreign exchange market is affected by actions of central bank.

5. Economic conditions
Foreign exchange market is affected by economic conditions. The change in economic activities brings change in foreign exchange market.

6. Political conditions
Favorable political conditions do not disturb the foreign exchange market. In case of political unrest there are ups and down in foreign market.

Q. 24 What is the best definition of Money, support with reasons? Discuss in detail the functions and qualities of money.

Money

1. "Money is what money does" (Withers)

2. "Anything, which is widely acceptable in payment of goods or in discharge of other kinds of obligations." (Robertson)

It is assumed that word Money has been made from the Latin word "Moneta" the goddess of Rome. The invention of money is has made due to the difficulties of barter system. Money has removed most of the problems of barter system. Money has always been important to the people and economy. It is considered like the blood of human body for the economic development of any country.

PRIMARY FUNCTIONS

1. Medium of Exchange
Money has the qualities of general acceptability. In the modern money exchange system, the prices of all goods and services are expressed in terms of money.
2. Measure of value
The second important function of money is that it measures the values of all goods and services.

SECONDARY FUNCTIONS

1. Deferred Payment
Both borrowings as well as lending are done in terms of money. Money acts as standard of deferred payments.
2. Store of Purchasing Power
Savings were so difficult under barter system but with invention of money, this difficulty has disappeared.
3. Purchasing Power
In barter system it was very difficult to transfer the purchasing power. Money performed this function easily and quickly.
4. Market Mechanism
Money is the base of market. In other words market mechanism works only because of money.
5. Modern Economy
All the economic policies are applicable only because of the fact it is possible to state the prices of everything in terms of money.
6. Economic Activities
Economic activities such as investments, savings, credit, advances, purchases and sales are made in terms of money. It has facilitated the process of expansion of trade and commerce.

CONTINGENT FUNCTIONS

1. Basis of Credit
Credit has increased in all the countries of world. Use of cheques, bills of exchange etc. has gone up. Without money, credit instruments cannot circulate.
2. Marginal Productivity

Money plays an important role in equalizing the marginal utility of the consumer because the prices of all commodities are expressed in terms of money.

3. Production of Capital

Money is the most liquid type of capital. It can be put to any use. On the account of this liquidity of money, capital can be transferred from less productive to more productive uses.

4. Repayment Capacity

Money possesses the quality of general acceptability. So to maintain its repayment capacity, every firm has to keep some amount of liquid money in its assets.

5. Purchasing Power

Punching power stored in terms of money can be put to any use. It is not essential that money should be used for the purpose for which it has been saved.

6. Money gives Liquidity of Capital

Money is the most liquid form of capital. It can be put to any use. From this point of view, money is highly important.

Conclusion

Money is has removed many difficulties of barter system. It is always been main part of an economy. Money in economy is like the blood of human body. It is much important in the developed world.

Q. 25 Describe the characteristics and phases of trade cycle.

Trade cycle

"A trade cycle is composed of periods of good trade characterized by rising prices and low unemployment percentages alternating with periods of bad trade characterized by falling prices and high unemployment percentages."
(Prof. Keynes)

There are ups and downs in the economic activities. The government can adopt measures to control economic fluctuations. Sometimes these measures may be poor than forces of trade cycles. Therefore the result is that there is change in the business activities. A trade cycle can consist of eight to ten years.

CHARACTERISTICS OF TRADE CYCLE

1. Financial Crisis
The financial crises are connected with trade cycle. The most severe financial crisis began in the USA on October 29 1929.

2. Difference in level
Sometimes capital goods industry are affected and sometime consumer goods industry are affected because there is a difference of level.

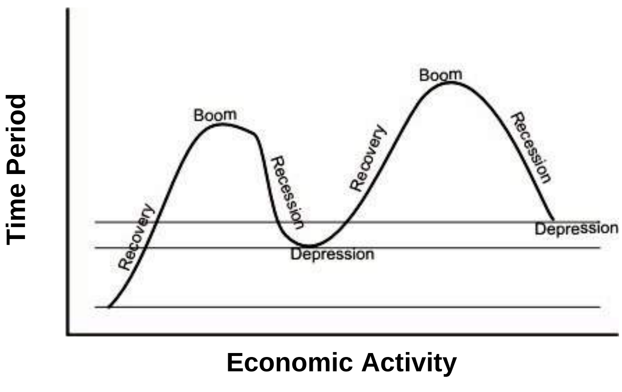
3. Effects the whole economy
Trade cycles affect the whole economy of a country. In fact their effects reach even social and other matters of a community.

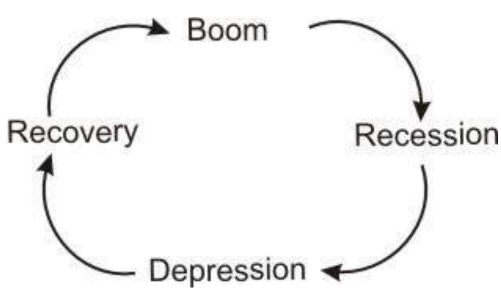
4. International
The world is knit in one economic unit through international trade that if there is prosperity or crisis in one part of the world it is shared by all other countries of the world too.

5. Continuous
The phases of trade cycle follow each other and it is completed between 8 to 18 years.

7. Self Generating
The business cycle is self generating. Each phase contains in the forces which bring an end to it and generate the next phase.

Phases of Trade Cycle





PHASES OF TRADE CYCLE

1. Boom / Prosperity

The business activities are at peak level during boom. It a period of increased demand output, employment and income. There is general increase in demand for goods. Therefore prices show an upward movement. But wages, salaries interest rate and taxes do not rise in proportion to the rise in prices. The profit margin increases due to gap between prices and costs. The increased profit increases the value of stock exchange securities. The businessmen are hopeful. The liberal bank credit and more profit expectations help to increase investment. The investment is made in fixed capital goods like plant, machinery and equipment. They lead to expansion in economic activity by increase in the demand for consumer goods and the price level goes up. The manufacturers and middlemen try to increase their stocks. The expansion process continues till there is a peak level or boom.

2. Recession

The boom does not last for along period. When boom is over there is recession. It is an upper turning point from prosperity to depression. Ti lasts for a shorter period of time. It marks the point at which the forces that make for contraction finally win over the forces for expansion. Its outward signs are liquidation in the stock market, strain in the banking system and some liquidation of bank loan, and the decline of prices. The stock market feels downfall and there will be sudden change in allowance areas of business. A wave of pessimism begins to prevail in the economy. The investment is reduced. The production of capital goods industries falls. The profits decline further because costs overtake prices. The poor firms close their business while others reduce production and try to sell old stocks.

3. Depression or Contraction

it a period of difficulties. There id decline in production employment, income demand and prices. The production of both consumer and capital goods falls. The costs are high and prices are low so there is fall in profits. The people are not willing get bank loans even at low bank rate. There is mass un-employment during the period. There is general fall in prices, profits wages, interest rates, consumption, expenditure, investment and bank loans. The factories are closed and workers become jobless. The capital goods industries suffer more than consumption goods industries. Al business activates are at its lowest point. The level of real income consumed real income produced and the rate of unemployment reach subnormal levels due to idle resources and capacity.

4. Recovery or Revival

During this period constructional and development works are started by the government. In this period depression is removed and there is the beginning of boom and expansion. There is complete agreement between cost and price. Profit begins to reappear in the business. The repairs and replacement of capital equipments start. There is a re-employment of labour. The commercial banks also expand the credit. The marginal efficiency of capital begins to rise and rate of investment increases.

Q. 26 Critically examine the quantity theory of money given by Fisher.

There are various theories which have been put forward for explaining the determination of the value of money. Jean Bodin presented the quantity theory of money in 1568 for the first time. Afterwards, John Law, David Hume, Henry Thornton, David Ricardo, J.S. Mill and Simmon Newcomb have also worked on this theory. But it was popularized by Professor Irving Fisher with the help of an equation in his book "Purchasing Power of Money" in 1911 A.D. This theory is based on medium of exchange function of money. Monetary policy is the basis of ups and down in value of money and price level. Here, we explain the following important theories of Quantity theory of money as under:

1. Quantity Theory of Money

According to this theory, the value of money is dependent on the quantity of money in circulation. Any change in the total quantity of money in country affects prices and the change in prices of goods affects the value of money. In simple words, quantity theory of money states that changes in general price level occur due to changes in quantity of money in circulation i.e. an increase in quantity of money raises the price level or contraction in the quantity of money will lead to fall in general price level.

According to Irving Fisher:

"Other things remaining unchanged, as the quantity of money in circulation increases, the price level also increases in direct proportion and the value of money decreases and vice versa".

According to F.W. Taussing:

"Double the quantity of money and other things being equal, price will be twice as high as before, and the value of money on hold. Half the quantity of money and other things being equal, prices will be half of what they were before and the value of money double".

Explanation

Thus we see that according to the above given definition, the change in quantity of money affects the price level in direct proportion and since value of money and price level have inverse relation with each other, we can say that quantity of money and value of money is inversely proportional.

Equation of Exchange:

Prof. Irving Fisher has expressed the quantity theory of money in a simple equation, which is called equation of exchange. It is as:

Formula $$P = \frac{MV + M'V'}{T}$$

P= General Prices Level.
M= Quantity of money or stock of money.
V= Velocity of money in circulation.
T= Volume of transactions i.e. number of goods to be bought and sold through money.
M'= Credit money
V'= Velocity of credit money.

In this formula (MV +M'V') represents supply of money and demand for money equals to supply of money. Prof. Fisher assumes that in short period T and V remain constant. Therefore P will change directly with M.

Example

Suppose the initial position of the Economy is as:
M=300, M'=100 V=2, V'= 2, T=40

$$P = \frac{300 \times 2 + 100 \times 2}{40} = \text{Rs. } 20$$

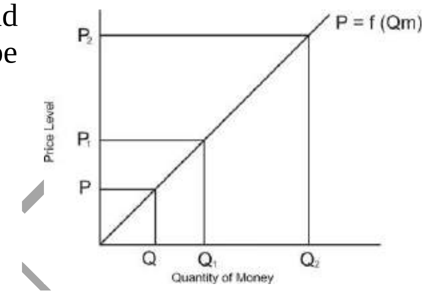
Now to see the effect of change in quantity of money over prices and value of money, let double the M, keeping velocity (V) and quantity of goods as constant.

$$P = \frac{600 \times 2 + 200 \times 2}{40} = \text{Rs. } 40$$

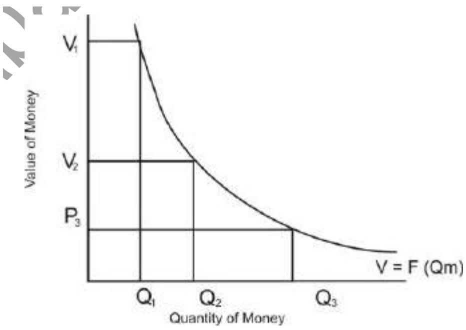
Thus we see that when M is doubled, price level is also doubled which means that value of money has fallen to one half.
Now, we half the M:

$$P = \frac{150 \times 2 + 50 \times 2}{40} = \text{Rs. } 10$$

Thus we see that if we half the M, the prices will also be half and value of money will be doubled. Quantity theory of money can be explained with the help of following diagrams:



When quantity of money is Q1, Price is P1 and when quantity of money rises to Q2, means double, price also increases to P2 and so on. It means there is direct relationship between the quantity of money and price.



When the quantity of money Q1, the value of money is V1 when the quantity of money is Q2, means double, the value of money reduce to V2 and so on. It means there is an inverse relationship between quantity of money and value of money.

Assumptions

The quantity theory is based on following assumptions.

1. Full Employment
The theory is based on the assumption of full employment in the economy.

2. Price level is a passive factor
The theory assumes that price level (P) is affected by other factors of equation but it does not affect them.

3. Constant Velocity of Money
In Fisher's equation, the velocity of circulation of money (V) and bank money (V') are assumed to be constant.

4. Constant Volume of Trade
The total volume of transactions (T) remains unaffected by changes in M and M'.

5. Barter Transaction
Barter means exchanges of goods and services for goods and services without the use of money. The barter dealing can be excluded altogether while dealing with quantity theory.

6. Long Period
The theory applies to the changes in prices only in long period, because quantity of money does not affect price level and value of money in short run.

7. Constant relation between M and M'

In Fisher's equation, it is assumed a proportional relationship between currency money (M) and bank money (M')

Criticism

1. Useless Assumptions

This theory is based on certain assumptions "Other things remaining the same" which are not always true. Therefore, theory is not correct.

2. Dependent variables

All the assumptions are inter-linked. If one variable is changed the other is also changed. Therefore, this theory is not correct.

3. Circulation of money

It is very difficult to measure the circulation of money in the country; therefore, velocity cannot be calculated within the country.

4. Dynamic Theory

It is dynamic theory, which is not constant. Therefore, the value of money is not exactly measureable.

5. Supply side

This theory is one sided because the quantity of money can be doubled but it is not possible to hold the quantity of money.

6. Proportionate change

According to Fisher, the increase or decrease in the quantity of money brings proportionate change in the price level while the history shows that it is not true.

7. Trade Cycle

According to this theory government can increase the quantity of money to remove the deflation and decrease the supply of money to control inflation. But in 1930, when great depression took place, every country tried his best to increase the quantity of money but the prices did not rise and depression could not be removed.

8. Ignores the Rate of interest

Another serious defect is that this theory does not take into consideration the influences of the rate of interest of cash balances.

Q. 27 Define monetary policy and discuss its various tools (Methods of Credit Control)

If the monetary system of the country is unorganized then the balance of demand and supply of credit disturbs. Due to which the balance of demand and supply of credit disturbs. Due to which the economic system of the country faces many difficulties. If the amount of credit increases in any country the country becomes inflation stricken, which leads to the problem of dearness. On the other hand, if the amount of credit decreases then the country becomes deflation stricken which leads to the lower investment. Therefore, the central bank of any country takes various steps to maintain the balance of credit in the best interest of the country. These steps are called the tools of controlling credit or monetary policy.

“Monetary policy refers to the measures which the central bank of a country takes in controlling the money and credit supply in the country with a view to achiever certain specific economic objectives.”

“Monetary policy is considered as the regulation of cost and availability of money and credit in the country”

Main points of definition

1. It is considered as a measure or regulation.
2. For controlling the money and credit supply.
3. For deciding how much money the community should have.
4. To achieve specific economic objectives.

Objectives

1. Full employment

The main object of monetary policy is not only to maintain the conditions of employment in the country but also to create more opportunities of employment in less developed countries.

2. Price Stability

Maintenance of price stability does not mean to keep the prices fixed but to avoid inflation and deflation. The monetary policy is directed towards controlling inflation by decreasing the total amount of credit or containing its expansion with a desired limit and curing deflation by increasing it.

3. Exchange Stability

This means maintaining relative stability in the exchange rate i.e. external value of the country’s currency. It also means the maintenance of balance of payment in equilibrium or at least improves its position.

4. Equitable distribution of credit

This is necessary for social justice because it helps lessening inequality of wealth and income, which increases the standard of livening of people. thus the credit policy should be formulated in a ways, which ensures increased flow of credit to backward areas and small borrowers.

5. Foreign value of currency

Monetary policy helps in consolidating the, external value of local currency which leads to growth in trade.

6. Increase in investment

With the help of monetary policy, central bank plays a vital roe in the enhancement of investment, which results in economic stability.

7. Deposits of gold
Economy of the country comes into trouble because of decreases or increase in the deposits of gold. These effects can be removed with the help of monetary policy.

8. Stability in Capital Market
The development of any country depends upon its stable capital market. The central bank takes help of monetary policy in order to create stability in capital market.

9. Production of wealth
The main object of monetary policy is not only to maintain the conditions of employment in the country but also to create more opportunities of employment in less developed countries.

10. Control on inflation and deflation
Central bank generates economic stability by controlling inflation and deflation in the country.

11. Promotion of economic development
This means the steady growth in the National Product and Per Capita Income. It requires best utilization of productive resources. Thus with this objective the crecit control policy aims at mobilization of monetary resources and ensuring their fuller and productive use.

12. Increase in Production
With the help of monetary policy, various productive sectors are encouraged to get loans due to which a comprehensive increase in production can be expected.

Methods of Credit Control

Quantitative Methods
This method is used to control the total quantity of money supply and bank credit. They are selective in nature. This method can be divided into following five sub-methods.

1. Interest Rate Policy
It means the rate of interest at which the commercial banks grant loans against first class securities according to the instructions of central bank. In case of inflation, the bank interest rate is raised which discourages borrowings, as a result credit contracts. On the other hand if there is deflation, the bank interest rate is lowered which encourages the borrowings as a result credit expands.

2. Open Market Operation
It means purchase and sale of securities by central bank in open market. If there is more quantity of money, the central bank sells securities in open market. Buyers make cash payments through commercial banks, so as a result, credit contracts. On the other hand, if central bank wants to increase the quantity of money in a country, then it buys securities and makes payment in cash, as a result credit expands.

3. Change in Reserve Ratio
Every member bank is required to keep a certain amount of its total deposits as cash reserve with central bank. If there is more quantity of money in the country, the ratio is raised which reduces the credit base of banks and credit contracts. On the other hand, if there is less quantity of money then the ratio is reduced which increases the credit base of banks and credit expands.

4. Credit Rationing

The central bank puts limits for the grant of credit. The credit is rationed for each bank during financial crises. If the central bank adopts expansionary monetary policy the rationing limit of loans increases. On the other hand if the central bank adopts the contractionary monetary policy the rationing limit of loans decreases.

5. Bank / Discount Rate Policy

The policy refers to the varying of the rate at which the central bank re-discounts the first class bills of exchange of scheduled banks of advances loans to them against approved securities. In case of inflation, the central bank increases the bank rate and vice versa. Now in Pakistan open market operation and bank (discount) rate policy are mostly used by SBP to control the credit in the country.

Qualitative Methods

These methods are used to restrict bank advances for certain specific purposes. There are general in nature. The detail of these methods is as under:

1. Moral persuation

Sometimes the central bank advises the commercial banks to avoid malpractices and makes them to adopt right ways. So that country could achieve its objects easily. Generally, following instructions are given to commercial bank in this regard.

i) Avoid economic activities against the interest of country.
ii) Issuance of loans only for investment and productive purposes.

2. Publicity

Central bank keeps the nation well informed about economic conditions through newspapers, radio and television etc which enables the people to understand the economic condition of the country. Publicity throws a light on the following points:

i) Policies of business concerns, their production and production targets.
ii) Deposits of capital, quantity of loans, interest rate of banks and level of inflation or deflation.

3. Direct Action

When the central ban realizes the fact that its policies regarding credit control are not being implemented then he takes following direct actions:

i) Does not provide the facility of clearing house.
ii) Declares the scheduled banks as non scheduled banks and takes the facilities back.
iii) Increases the ratio of Cash Reserve which limits the advancing ability of banks.
iv) Refuses to re-discount the bills of exchange of scheduled banks.

4. Change in Margin

Margin means the difference between the amount of loan and the value of security. The minimum margin requirement on securities may be relaxed to encourage the borrowings and can be imposed to discourage the borrowings.

5. Restriction on advances

In severe economic problems, the central bank may impose restriction on commercial banks to grant loans. The central bank tries its level best to avoid this tool of credit control policy.

6. Selective Control

In this method the credit controlled by increasing or decreasing the buying power of consumers. If there is inflation, the grant of credit for consumption goods may be banned and in case of deflation a lenient policy about the consumer credit is adopted and supply of money expands. Central bank usually restricts consumer's credit, so that more funds are available to the industry, agriculture and other sectors.

Limitations / Difficulties in Controlling Credit

1. Non-cooperation
Different commercial banks do not cooperate with the central bank due to which central bank cannot achieve its objects.

2. Non-Schedule Banks
Non-scheduled banks are out of control of the central bank and they are not bound to follow the policies of the central bank.

3. Self Created credit instruments
Only bank do not create credit instruments rather various businessmen also create their personal credit instruments to settle business dealings and these people are not under the control of central bank.

4. Other Conditions
At the time of getting loan, the borrowers not only keep in view interest rate but also consider other conditions. If other conditions are suitable then they get loan on high rate of interest.

5. Object of Loan
Business community takes loan not only for productive purposes but also for non-productive purposes. The non-productive use of loans does not create stability in economic condition of the country.

6. No Control on objects
Central bank cannot control the objects of spending amount of loan. It means credit can be utilized on different unwanted and non-productive purposes. For example, there is a possibility that loans may be utilized for speculative motive, which is not a progressive element for the economy in any case.

7. Political conditions
If there is political instability, the business community transfers its capital to the foreign countries which effects badly on the circulation of credit in the country.

8. Foreign banks
The central bank of any country cannot impose its rules and regulations strictly on foreign banks, because these banks work according to the conditions of international banking.

9. Unorganized capital market
The success of monetary policy depends upon the availability of organized capital market. If the capital market of any country is not organized then the central bank has to face difficulties in controlling the credit.

10. Other Financial Institution
In addition to commercial banks other financial institutions like insurance companies and financial corporation play a pivotal role in import and export. The balance of payment disturbs in case of low rate of import and export which hampers the economy of the country.

FINANCE PORTION

Q. 28 What is business finance? Briefly discuss the different importance and types of business finance?

Business Finance

> **"Business finance is defined as that business activity which is concerned with acquisition and conservation of capital funds in meeting the financial needs and overall objectives of business finance".**

IMPORTANCE OF FINANCE

1. Purchase of asset

The purchase and maintenance of assets like land, building, plant and machinery is possible with finance.

2. Purchase of material

Factories depend on raw material. Manufacturers can buy raw material to make goods.

3. Purchase of goods

Wholesalers and retailers purchase finished goods from producers with finance.

4. Payment of expenses

The claims of inside and outside business are paid with finance.

5. Business expansion

The increase in the size of business is possible due to availability of finance only.

6. Change in business

The businessmen can change the nature of their business with the help of finance.

7. Purchase of technology & professional services

With the help of finance technology and professional services can be purchased from world markets easily.

8. Tax payment

Taxes are paid in terms of money and money is finance.

TYPES & SOURCES OF FINANCE

1. Short - Term Finance

The borrowing of funds for the period of one year or less is known as short term finance. The short term finance is available at low rate of interest, for seasonal requirements.

Sources

(i) Public Sources

Short term finance can be raised through following public sources.

1. Commercial Banks & Foreign exchange banks

Commercial banks receive the savings of public as deposits and lend them to the businessmen for short period. Foreign banks make loans to large scale foreign business in accordance with nationality which can be converted into local currency.

2. Federal Government Agencies

Many Central Government Agencies provide loans to private business. Generally, these agencies are authorized to make loans to business during emergency period. i.e. S.B.F.C.

(ii) Personal Sources

Short term finance can be raised through following personal sources.

1. Friends and Relatives

A number of persons obtain loan from friends or relatives in the time of need.

2. Indigenous Bankers

This type of sources includes small money lenders i.e. Sahukar, Mahajan and Zamindar.

3. Finance Companies & Cooperate Societies

Finance companies are the specialized financial institutions whose primary reason for existence is to lend money for short period. Cooperative societies render valuable services in providing loans to rural businessmen against the security of land.

(iii) Business Sources

1. Trade Creditors

Trade creditors include whole sellers, retailers and manufacturers who supply goods on credit basis.

2. Customers

Sometimes customers provide short term funds by making advance payment of goods before their delivery.

3. Commercial Paper House

These financial agencies are formed to buy promissory notes of the small business concerns and they can be sold in the open market.

2. Medium - Term Finance

In medium term finance borrowing is made for one to 10 years. Some other banking experts say that the period is one to 5 years. It is needed for purchasing new machinery, to introduce new product, for repair, improvement, alteration and addition to plant.

Sources

1. Life Insurance Companies

Insurance companies have stable income of premium, so they grant medium term finance.

2. Partial Payment Method

Some manufacturers sell their goods on cash and installment basis. Some portion of the price is paid and the balance is partially paid or on Installment basis.

3. Other Resources

In some businesses directors, partners and officers may also provide loans.

4 Finical Institutions

The financial institutes of a country grant medium term finance to the businessmen e.g. PICIC, IDBP.

5. TFC & PTC

Term Finance Certificates are issued by the company to lending institutions. The mark up price is paid in installment. Participatory term certificates are issued by a company for meeting its medium term needs.

3. Long – Term Finance

Long term finance is generally required for more than 10 years. Following are the main features of long term finance for purchasing permanent capital assets such as land, building, plant and machinery, for starting a big business. High rate of interest is charged.

Sources

1. Underwriters

They take the responsibility to dispose out securities of companies and receive commission.

2. Bonds

Under this scheme, large size businesses issue secured and unsecured bonds.

3. Investment Trust

These trusts are specialized in the field of investment. They sell their own shares in the open market and then collected amount is utilized to purchase securities of their companies.

4. Incorporate Savings

A company does not distribute its whole profit among the shareholders. They transfer some portion of the profit to reserve fund every year.

5. New Partners

By inviting new partners in a firm, the volume of capital can be increased.

6. Debentures

The debentures are long term loans against the assets of company. The interest and time period for their redemption is also fixed.

7. Mortgage

These loans are secured against immovable property like land and building etc.

9. Musharika Investment

The capital requirements of a business are also met by Musharika certificates.

10. Modaraba Certificates Long term loans are also obtained on Modaraba certificates which may be for specific or multiple purposes.

Q. 29 What do you mean by Debt Financing? Explain its merit and demerits?

Debt Financing

“Borrowed funds for the business needs are called debt financing. These sources of loan are obtained for short term, intermediate and long period on interest basis. The repayment of these loans is made on installment basis if it is for more than one year.”

MERITS

1. Checking of Invoice and Goods

If purchases are made on credit it is the more easy to check the invoice and goods before paying the bill than paying cash on delivery.

2. Low Interest

The interest charged on debts is lower than the rate of return paid to shareholders in form of dividend.

3. Tax Savings

As the interest on borrowed funds is an expense and is deductible from income which results in low profit. So, the owners have to pay fewer taxes.

4. Urgent Current Expenses

The business concern can take over draft and short term loans from commercial banks.

5. Large Scale Business

For large scale business huge capital is required, we can take help of borrowed money.

6. Expansion of Business

The business can be expanded with the use of borrowed funds.

7. No interference of Creditors

The creditors does not interfere the affairs of the business and the owners are independent.

8. Flexible Financing Policy

Debt financing enables the management to frame a flexible financing policy.

9. Winding up

When business is closed the owners have to refund of capital after the creditors have been paid. So the whole loss goes to owners as per accounts.

10. Quick and High Return

Debt financing makes finance policy flexible. The reason is that a firm will get debt finance when the season starts and repays it as soon as the season is over.

DEMERITS

1. Discouragement of Investment

In the period of depression when firm would be given a low return as compare to interest on borrowed funds, the new investors will not contribute their funds in business sector.

2. Payment of Principal Amount

The main drawback of the use of creditor fund is the risk to the owners investment from the inability to meet the creditor claims in respect of principal amount when due.

3. Regular Maturity

Short term credit must be paid at maturity. In case of delay or default the business can suffer but this situation may not arise in owners finance due to absence of maturity

4. Depression

The funds supplied by creditors are not available in the times of depression, because they are not ready to take risk.

5. Risk of Heavy Losses

The business depending upon borrowed money possesses less potential to face any loss.

6. Higher Rate of Interest

Interest charged by the lenders is high than other types of payments. Credit financing may be costly due to various economic and business factors.

7. Chance of Sue

The interest due on the borrowed funds and the principal amount must be paid on maturity date. If it is not paid then creditors can legally force the firm for repayment.

8. Restlessness

Sometimes the firm used its profit in the business to clear the borrowed funds, it then creates restlessness among partners or owners.

9. Low Returns

The rate of interest is paid to the creditors out of the profit which reduce the income. As a result the return to the owners remains low.

CONCLUSION

Debt Financing have some merits and demerits, on the basis of them we conclude that with the help of debt finance a firm can raise funds in emergencies, meet seasonal needs and can expand sales during depression. If the interest on borrowed capital and principal is not paid at maturity date then the creditors may sue the business which put it in a very awkward position in the eyes of competitors.

Q. 30 What do you mean by Equity Financing? Explain its merit and demerits?

Equity Financing

“The finance provided by the owners is called equity financing.

The profit retained in the business is also a part of equity financing. The owners contribute for meeting the working capital as well as fixed capital needs of the business.

SOURCES OF EQUITY FINANCING

1. Preference shares
The public companies can raise funds through sales of preference shares. The investors can get fixed rate of dividend on these shares.

2. Ordinary shares
The shares are sold to general public. The funds are available on permanent basis. The rate of profit is not fixed. Assets are free from any charges.

3. Deferred shares
Deferred shares are issued to directors. They received dividend after payments to ordinary shareholders. The interest of directors remains in business due to sale of such shares.

4. Reserves
The reserves are created out of profits for meeting unforeseen expenses. The management is allowed to use such reserves for benefit of business.

5. Accumulated profits
The accumulated profits are available for use in business. The management can decide the utility of such profits.

6. Sale of idle assts
The management can sell idle assets. The available funds are used in business to meet financial needs. The cost of borrowing can be saved.

MERITS

1. High rate of profit
The capital provides high rate of profit. There is no loan so there is no interest. In the absence of interest the rate of profit is high. It is beneficial for owners.

2. Minimum losses
There is minimum loss to the owners during depression. The interest on loan increases losses. In case of equity finance there is no interest so losses remain low.

3. Borrowing is possible
The owners provide capital without security. The assets are free from any burden. In case of need assets can be use as security for borrowing money.

4. Permanent nature of capital
The capital remain with management during business life. There sis no repayment problem at any stage. The nature of capital is permanent so it is not refunded.

5. Management becomes alert
The owners finance makes the management alert. In case of low profit they are responsible when there is loss the management is accountable.

6. No need of sinking funds

The owner's funds are available for indefinite period. There is no need to set up sinking funds for refund of capital. The owner's funds increase financial position.

7. Liquidation of company

The assets are free from any burden. There is no claim of creditors on the assets. The owners can get back amount of capital invested in business.

8. No financial worries

It is benefit of equity finance that there are no financial worries of borrowing when supply of loan funds is short and interest rate are high

DEMERITS

1. Business expansion becomes impossible

The owners like risk free investment. Therefore business expansion becomes impossible. The economies of large scale are not possible due to small size of business.

2. High rate of taxes

The rate of profit is high as interest is not charged to profit and loss account. When profit is high the rate of taxes are high. The government earns more income.

3. Business life is at stake

The capital provides high rate of profit. There is no loan so there is no interest. In the absence of interest the rate of profit is high. It is beneficial for owners.

4. No innovation

The owners invest their funds is safe areas. They work on the basis of their experience. They do not start new and risky business. There is no innovation so there is little profit.

5. Idle funds

There may be need of seasonal funds. The needs are met with equity finance. The funds remain idle for many months. The result is that profit rate goes down.

6. High cost of capital

The cost of capital is higher as compared to borrowed funds. The owners invest money to earn reasonable rate of profit. The expected rate of profit is started at high level.

Q.31 What are the Islamic Modes of Financing?

ISLAMIC MODES OF FINANCING

1. Loans financing by lending

1. Qarze - Hasna

Under the Qarz-e-Hasna Scheme, interest free loans are granted by the nationalized banks to the students who are less than 35 years of age and do not have sufficient means to continue their education studies. Qarz-e-Hasna is available for post intermediate studies in engineering, medicine, agriculture, electronics, economics and commerce etc. For repayment of the loan, a grace period of 2 years is granted after completion of studies.

2. Interest Free Loans with Service Charges

It is a new concept of lending and is based on Ijtehad. The banks are permitted to lend funds free of interest. They are to recover only the actual service charges from the users of funds. This mode of financing is being used by the banks for financing of exports.

2. Trade Related Modes of Financing

1. Hire Purchase

In a hire purchase bank purchases the specified goods at the request of the customer and hires them to the clients on the payment of periodical installments. The installments are worked out covers a fair return as well as the actual cost of the goods on full payments.

2. Development Charges

It is a very useful mode of trade financing. The bank made advances to the customers for the development of land and property. It then takes a share in the value added to the property. This share in the value added to the developed property is named as development charges.

3. Leasing

Leasing also called Ijra is a medium or long term financing. In this trade mode of financing, the lessee Mustegir acquires the rights for the use of an asset from the lessor Ajir for a fixed agreed period of time, on the payment of a fixed amount which may be on yearly, half yearly or on monthly basis. The title of the property remains with the lesser.

4. Mark up

The mark up or Bai Muajjal is a purchase of goods by banks and their sale to clients at an appropriate mark up in price on late payment basis.

5. Mark Down

It is a purchase of moveable or immovable property by the bank with Buy Back Agreement. According to this trade mode of financing, the customer sells the moveable or immovable property to the bank with a promise to buy back the same from the bank on a future date.

ISLAMIC INVESTMENT MODES OF FINANCING

1. Investment in Musharika

It is an agreement between the Bank and its client to participate in a business as temporary partners by providing agreed amount of funds for sharing profits or losses during a specified period of time.

2. Modaraba

Modaraba means the business in which the subscriber participates with the money and the manager Modaraba with the knowledge and skill. The chief features of Modoraba are:

- Modaraba must be registered under Modarba Floatation and control ordinance, 1980
- Profit is shared in agreed ratio. Modaraba certificates are transferable
- Modaraba may be for "Specific purpose" or for "Multiple purpose "
- It may be perpetual or for a specified period.

3. Participation Term Certificates

Participation term certificates are an instrument of finance issued by company for meeting its medium and long term capital needs. The salient features of PTC are:

- PTC is an instrument of medium and long term financing which has been developed to replace debenture financing and instrument is transferable.
- Profits are shared in agreed ratio while losses are shared in the ratio of banks and company's investments.
- Only JSC Joint Stock Companies can raise funds for by issuing PTC.

4. Investment on the Basis of Equity Participation

- Equity participation means sharing rises and rewards of ownership.
- Under this scheme, the bank or financier purchases the shares of the company at market price or at an agreed price.
- Profit will be shared in the form of interim or annual dividend.
- Loss will be borne in the form of reduction in the market price of the shares purchased.

5. Investment on Rent Sharing Basis

- Rent sharing is generally applicable to financing for the purchase or construction of house. The bank and the client will contribute funds, as agreed, to purchase or construct the house.
- Rent of the building will be estimated area wise, and will be shared in the ratio of their investments or as agreed upon. Rent may be revised after every three months.

Short Question & Answer

1. **State Bank Of Pakistan**
State bank of Pakistan is an institution which performs the functions of expansion and contraction of money and supply in Pakistan.

2. **IMF**
IMF stands for International monetary fund. It is an institution financial institution.

3. **Islamic Development Bank**
Islamic Development Bank was established in 1975 at Jeddah in the Islamic Conference, where the ministers of the Islamic countries were gathered in 1973. Head office of the bank is in Jeddah (Saudi Arabia)

4. **Near Money**
The money and assets which can be easily and quickly converted into money without loss in value represents near money.

5. **IBRD**
IBRD stands for the international bank for reconstruction and development. It is an international financial institution.

6. **Index Number**
An index number is measure of relative changes accruing in a series of value compared with base year.

7. **Leasing**
Leasing is an agreement whereby a party, the lessor, transfers an asset and the right to use it to another party, called the lessee in exchange for periodic lease payments.

8. **Musharika**
An arrangement of business or financing in which partners can participate their money or effort or skill or a combination of these items, is called Musharika.

9. **Stock Exchange**
A stock exchange is an association of persons engaged in the buying & selling of stock, bonds or shares for the public on commission and is governed by certain rules & regulations.

10. **Money Market**
A place where near money is sold and purchased is known as money market. Further, where the short-term loans are bought and sold in a market is called money market.

11. **Negotiable Instruments**
A negotiable instrument means promissory note, bill of exchange or cheque payable either to order or bearer.

12. **E-Banking**
The relationship between banking and the electronic information technology products that can assist banking represents e-banking. In other words, the use of information technology products by the bankers to promote their business.

13. **Mark-Up Financing**
A mode of financing in which banks purchases goods and then sell them to client at some markup in price on deferred payment basis is called markup financing.

14. **Cross Cheque**
A cross cheque has tow transverse parallel line on its face. The payment of cheque can be claimed thorough another bank. The payee bank will collect amount if he is actual payee.

15. **Trade Cycle**
The recurrent ups and downs in the level of economic activity that extends a period

of time is called trade cycle.

16. Fiat Paper Money

A type of paper money that gets its status as money from the power of state neither it is convertible nor it is fully backed by gold or metallic reserves. It is money because government says it as legal tender.

17. Mutual Funds

A cross cheque has tow transverse parallel line on its face. The payment of cheque can be claimed thorough another bank. The payee bank will collect amount if he is actual payee.

18. Clearing House

An institution that takes the responsibility of settlement indebtness between its member sis called clearing house.

19. Spot Rate Of Exchange

A rate of exchange prevailing in the foreign exchange market at a specific time is called, spot rate.

20. Post Dated Cheque

A cheque issued for future date is called post dated cheque.

21. Non-Scheduled Bank

The banks which are not registered in the list central bank until its charter and they are not bound to provide banking service according to the policies and instructions of central bank.

22. Real Interest Rate

A rate of return gets from their investment after deducting inflation rate and other deductions.

23. Barter System

Barter system is the direct exchange of goods and services without the use of money as either means of payment or a unit of account.

24. Promissory Note

An instrument in writing containing an unconditional order signet by the maker, directing a certain person to pay certain sum of money only to or to order of a certain person or to the bearer of instrument.

25. Bills Of Exchange

A bill of exchange is an instrument in writing containing unconditional order signed by the maker, directing a certain person to pay certain sum of money only to or to the order of a certain person or to the bearer of instrument.

26. Debt Financing

The borrowed funds for the business needs is called debt financing.

27. Principles Of Note Issue

A principle of note issue in which these is no need to keep 100% gold or silver reserves against note issued. The note issued should have guaranteed of convertibility into gold.

28. Cash Balance Theory Of Money

When the demand for money increases people will reduce their expenditures on gold and silver in order to have larger cash holdings.

29. Client

A cross cheque has tow transverse parallel line on its face. The payment of cheque can be claimed thorough another bank. The payee bank will collect amount if he is actual payee.

پنجاب یونیورسٹی کے سابقہ پیپرز

PAST PAPER 2015 B. COM PART 1 MONEY BANKING AND FINANCE

Money Banking and Finance 2015 —— Paper: BC-307
Time Allowed: 3 Hours —— New Course Marks: 100
Note: Attempt any five questions. All questions carry equal marks.

Q1. Define money. Discuss the role and scope of money. (5,15)
Q2. Define paper money: Explain its advantages and disadvantages in detail. (5,8,7)
Q3. What is Index Number? How P – E Index Number is constructed? Explain its limitations also. (5,10,5)
Q4. Define 'Commercial Bank'. What are its various functions?3 (5,15)
Q5. What do you understand a BANKER and a customer? Give rights and duties of both. (5,7,8)
Q6. "Gnarling loans and advances is one of the functions of Banks." What are the various PRINCIPLES to be observed by a banker while advancing loans. to the customer and why? Explain. (15,5)
Q7. What is business finance? Explain the various modes of Islamic. Finance in detail. (5,15)
Q8. Write a note of two of the following: (20)
(i) Letter of credit(ii) IMF
(iii) Pak-China Trade Corridor (iv) SBP

MONEY BANKING AND FINANCE PAST PAPERS 2014 B. COM 1

Money Banking and Finance 2014
Time Allowed: 3 Hours New Course Marks: 100
Note: Attempt any five questions. All questions carry equal marks.

Question # 1 Define money and discuss the qualities of good money.4
Question # 2 Explain the different forms or types of money.
Question # 3 Differentiate inflation and deflation after defining them.
Question # 4 Discuss in detail the functions of S.B.P.
Question # 5 How does central bank of a country control the credit or money supply? Discuss.
Question # 6 Discuss the merits and demerits of privatization of banks in Pakistan.
Question # 7 Define debt finance. Also explain its merits and demerits.
Question # 8 Write short notes on:
Types of bank ac2counts
Sources of business finance

PUNJAB UNIVERSITY SUPPLEMENTARY 2013

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

1. Define money and explain its functions in detail.
2. Define money and discuss the forms of money.
3. How the rate of exchange is determined under "Balance of payment" theory.
4. Discuss the functions of commercial bank in detail.
5. "Loans create deposits and deposits create loans.!". explain.
6. Define and distinguish between the cheque and bills of exchange.
7. Discuss the sources of various types of business finance.
8. Write short notes on:
   a. Traditional and Islamic Banks
   b. Kinds of LC.

PUNJAB UNIVERSITY ANNUAL 2013

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

1. Discuss the merits and demerits of paper money.
2. Define trade cycle. Also discuss the causes and remedies of trade cycle.
3. Define banker and customer and also discuss the nature of types of their relationship.
4. Explain the functions of Central Bank in detail.
5. Define letter of credit (LC). And discuss various kinds of LC.
6. How do the commercial banks create credit. Explain the process and state limitations in this regards.
7. Define equity finance. Also discuss merits and demerits of equity finance.
8. Write short notes on:

a. Qualities of good money
b. Islamic and traditional banks

PUNJAB UNIVERSITY ANNUAL 2012

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

2. Discuss the inconveniences of Barter system and also explain how these inconveniences were removed with the introduction of money.
3. Explain the merits and demerits of Paper Money.
4. Define Trade cycle and explain its phases.
5. Define monetary policy and discuss its various tools (Methods of Credit Control)
6. Differentiate between central and commercial banks.
7. Explain the causes, merits and demerits of nationalization of banks in Pakistan.
8. Discuss the merits and demerits of equity finance.
9. Write short notes on:
   1. Kinds of banks exist in Pakistan
   2. Feature and sources of short term-finance.

PUNJAB UNIVERSITY ANNUAL 2011

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

1. What do you know about the evolution of money? Also discuss the qualities of good money.(8+12)
2. Critically examine the quantity theory of money given by Fisher. (20)
3. Define trade cycle and explain its different phases.(4+16)
4. Discuss the credit creation process of commercial bank. Also state their limitations in this regard. (15+5)
5. Discuss in detail the functions of Central Bank. (20)
6. Define letter of credit (L.C.) and explain its kinds. (4+16)
7. Define credit instruments. What are the differences between bills of exchange, promissory note and cheque? (4+16)
8. Write short notes on:
   a. I.M.F.
   b. Importance of business Finance.

PUNJAB UNIVERSITY ANNUAL 2010

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

1. What are the different kinds of banks that exist in Pakistan?
2. Define Monetary Policy? What ate the objective and tools of Monetary Policy?
3. What at eh causes of Nationalization in Pakistan? What are its advantages and disadvantages?
4. Define Bank? What is the difference between commercial and central bank given examples?
5. Define foreign exchange? What are the different rates of foreign exchange? How the rate of foreign is determined through demand of supply.
6. Define Money? Discuss the role and importance of money in economy.
7. Define Trade Cycle? What are the causes of fluctuation in trade cycle? Give remedies.
8. Give short notes:
   a. Islamic modes of financing
   b. Dishonoring of cheque.

PUNJAB UNIVERSITY ANNUAL 2009

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions. All questions carry equal marks.

1. What is the procedure to open a Bank Account? Discuss the various sources of funds for commercial banks?
2. Define letter of credit. Discuss its parties. What is procedure to open letter of credit?
3. Define Negotiable instrument. Why these are called negotiable? Differentiate between Bill of exchange, Promissory note, and cheque.
4. Define Central bank. What are the functions of central bank? Also discuss objectives of central bank.
5. Define money. What are the functions of money?
6. Define paper money. What are the advantages disadvantages of paper money?
7. Discuss the various interest free modes of financing.
8. Write note on the following:
   a. Capital market
   b. Role of commercial bank in economic development.

PUNJAB UNIVERSITY ANNUAL 2008

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions including Question No. 1 which is compulsory. All questions carry equal marks.

1. Briefly explain the following:
   a. Devaluation
   b. Forward Rates
   c. Stagflation
   d. Banking principle of note issue
   e. Equity participation
   f. Bear and bull
   g. Principles of lending
   h. Fiat money
   i. Bill of exchange
   j. Cheque
2. What do you mean by SBP? Discuss in detail functions of state bank of Pakistan.
3. What is Index Number? Discuss its use & limitations.
4. What were the objectives of Nationalization of Banking in Pakistan?
5. Explain the functions of commercial banks.
6. What is Capital Market? Differentiate between money & Capital Market.
7. Define money. Discuss functions of money.
8. what is business finance? Discuss sources of business finance.
9. How do commercial banks employ their funds?

PUNJAB UNIVERSITY ANNUAL 2007

PAPER: BC-307 **MONEY, BANKING AND FINANCE**
Time allowed: 3 Hours **Max. Marks: 100**

Attempt any FIVE questions including Question No. 1 which is compulsory. All questions carry equal marks.

1. give short answers for the followings:
   a. Define money.
   b. What is bill of exchange?
   c. Define inflation.
   d. List down four advantages of barter system.
   e. What are scheduled banks?
   f. What is ATM?
   g. Name any three types of bank accounts?
   h. What is equity finance?
   i. What is general relationship between banker and customer
   j. What is business finance?

2. Define paper money? What are the advantages and disadvantages of paper money?
3. Define deflation. What are its causes and remedies?
4. Describe the characteristics and phases of trade cycle.
5. What is meant by foreign exchange? And discuss the factors causing changes in exchange rate?
6. Define bank. Discuss in detail the kinds of banks?
7. Define and explain the function of state bank of Pakistan?
8. What are the different types of business finance? Also examine the sources of different types of business finance?
9, Write note on the following:
   a. Islamization of banking system in Pakistan.
   b. Pakistan Industrial credit & investment corporation