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**SUB: BUSINESS ENVIRONMENT**

# MONETARY POLICY

In a narrow sense, monetary policy means monetary measures and decisions of a country which aim at controlling the volume of money, influencing the level of interest rates, public spending, use of money and credit while, in a boarder sense, it refers to the monetary system which deals with all those monetary and non-monetary measures and decisions having monetary effects. Therefore, monetary policy implies those measures designed to ensure an efficient operation of the economic system or set of specific objectives through its influence on the supply, cost and availability of money.

**The concept of monetary policy has been defined in a different manner as under:**

**As per R.P.Kant—“ The management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objectives such as full employment.”**

**As per Harry.G.Jomnson—“ Polcy employing the central banks to control of the supply of money as an instrument for achieving the objectives of general economic policy.”**

# OBJECTIVE OF MONETARY POLICY

**1.NEUTRALITY OF MONEY. E**conomists like worksteed,Hayek,and Robertson are the chief exponents of neutral money. They hold the view that monetary authority should aim at neutrality of money in the economy. Any monetary change is the root cause of all economic fluctuations. According to neutralists, the monetary change causes distortion and disturbances in the proper operation of the economic system of the country. In other words, money is a technical device and it plays only passive role in national economy. It simply plays neutral role in the functioning of the economy.

Neutral money policy has been subjected to severe criticism on the following grounds:

**A .Being a wrong assumption, it could not be implemented. Thus it has been discarded now.**

**B. This principle does not ensure price stability even if the supply of money is kept constant at a particular level.**

**C. Concept of neutral money does not explain the advent of depression in the economy.**

**D. It is self contradictory as it claims a passive role for money.**

**2.EXCHANGE STABILITY.**

Exchange stability was the traditional objective of monetary authority. This was the main objective under Gold Standard among different countries. When there was disequilibrium in the balance of payment of the country, it was automatically corrected by movements. It was popularly, called “Expand currency and credit when gold is coming in; contract currency and credit when gold is going out.” This system will correct the disequilibrium in the balance of payment and exchange stability will be maintained.

**3. ECONOMIC GROWTH:**

One of the twin aims of the economic policy is to accelerate the process of economic growth with a view to raise the national income.

**4. EXPANSION OF MONEY:**

It sought to achieve the twin objectives of meeting in full the needs of production and trade at the same time moderating the growth of money supply to contain the inflationary pressures in the economy.

**5. ENCOURAGE EXPORTS:**

Its boosts exports in order to solve the problem of balance of payment deficit.

**6. SOCIAL JUSTICE:**

It supports programmes of social justice (i.e., more equitable distribution of income) by influencing the cost , volume and direction of credit to priority sectors of economy.

**7. REDUCE DEFICIT:**

**I**t tries to reduce the monetised deficit (net R.B.I. credit to the government ) in order to bring down Government’s **gross deficit.**

**8, MORE CREDIT FOR PRIORITY SECTOR:**

Monetary policy aims at providing more fund to priority sector by lowering interest rates for these sectors . Priority sector includes agriculture, small scale industry, weaker sections of society, etc.

In short in the pre-economic reform period, monetary policy in India was formulated in the context of economic planning whose main objective was to accelerate the growth process in the country.

## LIMITATIONS OF EVALUATION OF MONETARY POLICY OF INDIA.

In India, the monetary policy had only limited success on account of the following factors:

A .**Excessive cash reserves with the banks.**

**B. Under development money market.**

**C. Non-monetised sector.**

**D. Misuse of financial resources.**

**E. Lack of integrated interest rate structure.**

**F. Limited area of operation.**

**G. Predominance of currency.**

**H. Proportion of credit as money.**

**I. Shortage of real factors.**

**J. Lack of banking facilities.**

**K. Existence of inflation.**

**L. Defects in monitoring system.**

**M. Persuasive policy.**

**N. Government policies.**

**O. Lack of honesty.**

**P. Investment in unproductive channels.**

**Q. Limited application of weapons of credit control.**

The enumeration of the main limitations on the monetary policy in India should be enough for us to realize that this policy even within its restricted sphere is not the effective remedy for problems essentially monetary in character.