



## RBI Grade 'B' Officer Mains (Phase II) Exam - 2008

### English Paper 1

## Essay

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Write an argumentative essay of about 500 words on any one of the following:-40

- What went wrong in Singur?
- The Role of Media in a Crisis.
- The Nuclear Deal.
- The Future of Peace in India.
- Can we host the Olympics?

## Precis

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Make a precis of the following passage in your own words, reducing it to about 250 words, and give it a suitable title. Use the special sheet provided for the purpose:

Look beyond the stock markets, especially at the seized-up money markets, and there is little to see except bank failures, emergency rescues and high anxiety in the credit markets. These forces are drawing the financial system closer to disaster and the rich world to the edge of a nasty recession.

The crisis is spreading in two directions across the Atlantic to Europe, and out of the financial markets into the real economy. Governments have been dealing with it disaster by disaster. They have struggled to gain control not just because of the speed of contagion but also because policymakers, and the public they serve have failed fully to grasp the breadth and depth of the crisis.

Western Europe is not the limit of this the panic has also struck banks in Hong Kong, Russia and now India. And it is not just the geographical breadth of this crisis that is alarming, but also its economic depth. Because it is rooted in the money markets, it will feed through to businesses and households in every economy it hits.

Most of the time nobody notices the credit flowing through the lungs of the economy, any more than people notice the air they breathe. But everyone knows when credit stops circulating freely through markets to banks, businesses and consumers. For almost a year the markets had worried about banks' liquidity and solvency. After the bankruptcy of Lehman Brothers last month, amid confusion about whom the state would save and on what terms, they panicked. The markets for three-, six- and twelve-month paper are shut, so banks must borrow even more money overnight than usual. Banks used to borrow from each other at about 0.08 percentage points above official rates; on September 30th they paid more than four percentage points more. In one auction to get dollar funds overnight from the European Central Bank, banks were prepared to pay interest of 11% five times the pre-crisis rate. Astonishingly, rates scaled these extremes even as the Federal Reserve promised \$620 billion of extra funding. Bankers have always earned their crust by committing money for long periods and financing that with short-term deposits and borrowing. Today, that model has warped into self-parody: many of the banks' assets are unsellable even as they have to return to the market each day to ask for lenders to vote on their survival. No wonder they are hoarding cash.

This is why those politicians who set the interests of Main Street against those of Wall Street are so wrong. Sooner or later the money markets affect every business. Companies face higher interest charges and the fear that they may one day lose access to bank loans altogether. So they, too, hoard cash, cancelling acquisitions and investments, in order to pay down debt. Managers delay new products, leave factories unbuilt, pull the plug on loss-making divisions, and cut costs and jobs. Carmakers and other manufacturers will no longer extend credit and loans will become elusive and expensive. Consumers will suffer. Unemployment will rise. Even if the credit markets work well, the rich economies will slow as the asset-price bubble pops. If credit is choked off, that slowdown could turn into a deep recession.

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Governments need not just to communicate, but also to co-ordinate. Past banking crises show that late, piecemeal rescues cost more and work less well. Ad hoc mergers work for a while, but demands for help tend to recur.

Inconsistency sows uncertainty. Cross-border banking can make one country's policies awkward for the neighbours : the Irish Government's guarantee of all deposits threatens to suck in money from poorly protected British banks.

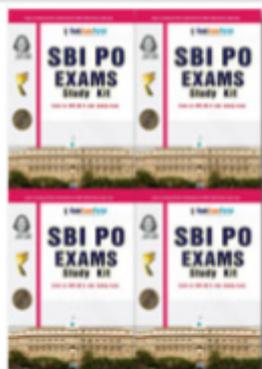
France's suggestion on October 1st that Europe's governments should work together was a good one; Germany's rejection of it was wrong. Central banks have coordinated their liquidity operations. Now that oil prices have plunged and worries about inflation are receding, interest-rate cuts are possible. They would be more powerful if coordinated.

But it is not only central banks that need to combine, whatever America's. Congress does, governments should work together on principles to stabilize and recapitalize banks not just to stem panic but also to save money. Even if, as the Europeans claim, the crisis was made in America, it now belongs to everyone.

## Comprehension

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**Answer the following questions on the passage, briefly and in your own words:-10**

- What are the forces affecting the financial system?
- How are the governments coping?
- To what does the writer compare the flow of credit?
- Examine the role of governments in the financial markets.
- List a few problems faced by the banks.

## Vocabulary

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**Explain clearly the contextual meaning of any three of the following expressions in the passage:-6**

- a. To gain control
- b. Hoarding cash
- c. Pull the plug
- d. Ad hoc
- e. Rooted in
- f. Solvency

## Letter Writing

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**Attempt any one of the following in about 250 words:-20m**

- On behalf of the employees of your bank, draft a representation to the management asking for improvements in infrastructure for better work performance.
- Draft a proposal to disburse funds and relief material to the flood hit victims of Bihar
- Imagine yourself to be the Governor of the Reserve Bank. What measures would you adopt in the present financial crisis?



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