CON 315

R. B. S. B. (R. O.— DEPR)

Panel Year 2012

[TIME : 2.30 p.m. TO 5.30 p.m.]

(MAXIMUM MARKS—100)

PAPER III

ENGLISH

N.B.—(1) All questions are *compulsory*.

(2) Figures to the right indicate marks.

(3) Each question must be started on a fresh page.

(4) All parts of a question must be answered together, without other answers intervening.

(5) Marks will be deducted if an answer far exceeds or falls short of the set limit, or is irrelevant, or if the handwriting is illegible.

(6) Answers must be written in *English*.

Marks

1. Write an essay of about 500 words on any *one* of the following topics. 40

(*a*) The impact of shopping malls on young people.

(*b*) One hundred years of Indian Cinema.

(*c*) The multifarious note of a woman.

(*d*) Can the honest stand out against the corrupt ?

(*e*) Cybercrimes in banking sector.

2. (*a*) Make a precis of the following passage reducing it to about 250 words and give it a suitable title. Write the precis on the sheet provided for this purpose :— 24

The cries for investor education have become shriller in the past few weeks. Without an understanding of the context in which we except people to learn finance, we may not go too far. The first lession to teach is about risk. We have to do this with empathy for the cultural context in which we have lent and borrowed money. We continue to shift the blame when a crisis hits us because we are not trained to deal with risk.

The formal and informal markets for finance work on completely different principles. When we lend to a friend, he loses his face if he defaults. There are various informal groups for financial activities, and they work very well when the amounts are small, the borrowing and lending is on reasonable terms, and the pressure to keep the promise is high as a collective social responsibility. The risk is these informal arrangements is contained when social costs are high. Defaulters are shunned by friends and the community, and it is tough for them to borrow again. Micro-finance arrangements work on the same principle.

These informal markets become formal when money has to be lent and borrowed on a larger scale, and between strangers. A bank stands between borrowers and lenders who do not know one

[*Turn over*

another. It screens borrowers and ensures that only the sound ones get credit. The loans that the bank offers are its assets, which will earn interest income. On the basis of the quality of its assets, the bank raised deposits. The ability of a bank to keep its promise to its depositors depends on the quality of loans it offers. This is why investing in banks that don't follow sound lending practices is risky.

The formal financial systems in our country have been unfortunately dominated by the government. Even today, the banking system is dominated by PSU banks. These systems have hurt the ability of the investing public to understand how formal markets work. They don't understand that formal systems would actively avoid offering bad loans because there were bailouts of faling institutions; they failed to see that bad borrowers may find it difficult to get money because the good and the bad were not differentiated by indifferent public lenders. Even today, depositors do not care much for the quality of a bank's assets; they belive that if it is owned by the government it won't fail. Publicly owned entities have two more problems: they face political itnterference turn to read tape to protect themselves from bad decisions.

Investors did not learn the difference between formal and informal finance. If a finance company offered 15% interest, while a bank offered 8%, they thought the bank was not as enterprising as the private player. If they did not know anything about whom the finance company lent to, they did not see it as a problem. They had been used to opacity, not having asked the government agencies what they did with the money. If the finance company gave a loan or took a deposit without a KYC or PAN, they saw it as efficient compared with the sloppy agency that took too much time with paperwork.

What has still not been leanrt by the ordinary investor is that money can be returned only on the basis of the strength of the borrwer's balance sheet. In vestors look for promises and guarantees, and continue to think that there has to be some way for borroweres to make a promise and keep it. The small informal group based lending was always based on the quality of the unbroken promise. therefore, they except that large, formal financial mechanisms should also find a way to make and keep promises. They fail to see that formal mechanisms cannot be risk-free. When money is lent to unkonwn borrowers, whether they repay or not depends on how they use the money, what asset they create, and how these assets generate income.

If money can be raised on the basis of empty promises, we will continue to see rampant misuse and failures. In a formal structure, the amount a person can borrow is limited by the risk asociated with assets. The fundamental principle in ensuring a stable banking system is capital adequacy. This means that the bank brings in its own equity capital of a least ₹ 12 for every ₹ 100 of loans, so that deposits do not default.

Marks

(*b*) (*i*) Answer two of the following questions on the passage briefly, in your own words :— 10

(1) What is basis of investor education in a formal financial set up ? How can we ensure a stable banking system ?

(2) How does formal finance differ from informal finance ?

(3) What are the problems faced by publicly owned financial institutions ?

(4) Why do investors not realise that formal financial systems are not free from risk ?

(*ii*) Explain briefly in your own words the contextual meaning and implication of any *three* of the following terms in the passage :— 6

(1) empathy

(2) shunned

(3) bailouts

(4) indifferent

(5) opacity

(6) rampant.

3. Attempt any *one* of the following in about 250 words :— 20

(*a*) The manager of ABC Commercial Bank has received a reminder from Penguin Freezers Pvt. Ltd. for payment of Rs. 52,000 towards annual maintenance of the air conditioning systems in the bank. The amount has been pending for more than three months. Draft a reply saying that a demand draft has been enclosed and also explaining the reason for the delay in payment.

(*b*) A committee headed by an Executive Director of RBI has been constituted to study the broblem of counter fiet money. Draft the committee's report to the Governor, RBI, recommending measures to detect take currency notes and curb instances of such notes being re-circulated.

(*c*) Draft a circular from RBI to all commercial banks prescribing parameters for ' Meaningful Financial Inclusion '. Stress the need to achieve Meaningful Financial Inclusion and suggest a time frame.