Class 10th Tender Heart High School
Subject:- Economics
Teacher: Lokesh Arora

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Ch - 7 Commercial Banks

Good Morning Students,
This lesson is of Class 10th for the subject of 'Economics'. The topic of this lesson is 'Meaning and functions of Commercial Bank' which is covered in chapter 7 titled "Commercial Banks' of your book 'Economics'.
This lesson is being submitted to you on 7.10.2024 and the voice is of Mr. Lokesh Arora.

Banking is an important branch of commerce and banks are essential institutions which facilitate trade.

Banks attract deposits from the public who have surplus cash balances with them and at the same time want to keep safe and sound. They undertake to repay the amount in full along with due amount of interest. They make loans and advances to the needy out of money which comes to them from the public in the form of deposits. Hence, banks are an important and essential institution in a modern society.

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According to Banking Regulation Act, 1949,
"Banking means the accepting, for the purpose of lending or investment, of deposits of money from public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

Commercial Banks:-

Commercial Banks are those banks which perform all kinds of banking functions such as accepting deposits, advancing loans, credit creation, financing trade and commerce etc.
Banks act as a bridge between savers of fund and users of funds. They mobilise the idle resources of the people and channelise them into productive uses.

Features of a Commercial Bank:-

(i) It deals with money. It accepts deposits and advances short-term loans to businessmen and traders.
(ii) It is a commercial institution, who aim is to earn profit.
(iii) It is a unique financial institution that creates demand deposits which serve as a

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medium of exchange

(iv) It deals with the general public.

Students now we will discuss functions of Commercial Banks.

In present day world, banks perform a number of functions. Various functions of commercial banks can be divided into three categories.

1. Primary Functions :-

(A) Accepting Deposits :-

Accepting deposits is the main function of a commercial bank. It attracts deposits for the purpose of making loans and investments. People deposit their money in banks for the sake of safety and for earning interest. A commercial bank receives deposits from individuals, firms and other institutions. Banks offers different types of deposit accounts to suit the needs of various depositors. Banks receive the following types of deposits

(i) Fixed Deposits :-

Under this account, a person makes a deposit of money in ~~one~~ lumpsum for a fixed period of time, say, one year, two years or more. These deposits can be withdrawn only after ~~a~~ the expiry of the period for which it is opened. These deposits carry the highest rate of interest. The main purpose of opening fixed deposits is to earn interest.

Pass Book or cheque book is not issued to the depositors. Only a deposit receipt specifying the date of expiry of fixed period and amount to be paid is issued to the customers.

(ii) Saving Deposit Account

This account can be opened by anyone by depositing a small amount of money, usually ₹ 500. The object of a saving bank account is to encourage the habit of savings and to collect small savings of people. Account holder can deposit any number of times but bank places certain restrictions on the number of withdrawal. A pass book and cheque book is issued to the depositors. Interest is allowed at a very low rate of interest say ~~atten~~ around 2.5% to 3.5% p.a.

(iii) Current Deposit Account:-

Current deposits are also known as demand deposits. These deposits can be withdrawn by the depositor at any time by means of cheques. No interest is paid on such deposits. Rather, the depositors have to pay something to bank for the services rendered by it. These deposits are generally made by businessmen and industrialists who receive and make large payments.

A pass book and cheque book is provided to the depositor. Overdraft facility (i.e. withdrawing more money than the account balance) is also available in this account.

(iv) Recurring Deposit Account:-

Recurring deposits are another type of fixed deposits. Under recurring deposit account, money is deposited in monthly instalments for a fixed period of time like for 1 year to 5 years. The purpose of this account is to encourage regular saving habits among the people. The rate of interest on these deposits is nearly the same as on fixed deposits.

Depositor of this account cannot withdraw the money before the expiry of the period for which it is opened. Therefore, cheque book is not issued to the customer. A passbook is issued to the customer.

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Students before going further in this topic, I will ask you some questions. You may pause the audio for few minutes and write the answers in your note-books

Qu 1. Explain the difference between Fixed Deposits and Demand (Current) Deposits.
2. What are Recurring Deposits.
3. In which type of account overdraft facility is available?

~~(B)~~ Now we will discuss the other important Primary function i.e. Lending Money.

(B) Lending Money:- (Advancing of loans):-
The second most important function of commercial banks is to make loans and advances. Commercial banks give loans and advances to businessmen, farmers, consumers and employees. The banks advance following types of loans:-

(i) Cash Credit:-
Under this, the borrower is allowed to withdraw upto a certain amount on a given security which comprises mainly stocks

of goods and bills receivable from others. The customer can withdraw the amount as and when he requires. Interest is charged on the amount actually withdrawn, not on the whole amount of loan.

(ii) **Overdraft :-** Under this arrangement a customer who has a current account with the bank can withdraw more than the amount standing to his credit up to a specified limit. Overdraft is a temporary arrangement on which interest is charged by the bank. Overdraft is allowed on the security of assets or on personal guarantee.

(iii) **Short-term Loans :-**
Under it, loans of a fixed amount are sanctioned to the borrower. The whole amount of loan is credited (transferred) to the account of the borrower. The borrower can withdraw the entire amount in lumpsum or in instalments. However, interest is charged on the full amount of the loan. These loans are generally granted against the security of the asset for which

the loan is taken.

(IV) Discounting of the Bill of Exchange :- This is another popular type of lending by the modern banks. A bill of exchange is a written undertaking (promise) by the debtor (the person who has to pay money) to the creditor (the person who has to receive money) regarding the payment to be made in future. If the holder of a bill of exchange wants money immediately, the bank provides him the money by discounting the bill of exchange. When the bill of exchange matures, the bank gets its payment from the banker of the debtor who has accepted the bill.

(V) Money at call (or very short-term loans) Such loans are very short period loans and can be called back by the bank at very short notice of say, one day to fourteen days. These loans are generally made by one bank to another bank as financial institutions. Such loans are repayable immediately on demand hence, they are known as 'Demand loans.

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With this, I am ending my topic here. I will give you some questions. All the students are required to answer the questions in their note-books

Qu 1. What is an Overdraft?
2. What is Money at Call?
3. What is Cash Credit?

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