

MACROECONOMICS · CHAPTER 3

Money and Banking

A 1-page guide for parents · 90-second read.

EXPECTED MARKS**7-8 out of 8.****TIME TO MASTER****7-9 hrs****HELPLINE****70330 05444****WHAT THIS CHAPTER IS, IN PLAIN ENGLISH**

Your child is learning how MONEY works in an economy and how BANKS multiply it. They study why money replaced barter (you no longer need to find someone who wants exactly what you have), the different ways economists measure the total money in the country (M1, M2, M3, M4), how ordinary banks 'create' new money every time they lend, and how the Reserve Bank of India (RBI) controls the whole system using tools like the repo rate, CRR and SLR. This is one of the highest-scoring chapters (6-8 marks) and connects directly to news about interest rates and inflation.

5 QUESTIONS TO ASK YOUR CHILD

- What problem of barter does money solve? (double coincidence of wants)
- Name the four functions of money and which two are primary.
- How does a bank create money? Show the ₹1,000 deposit example.
- What is the money multiplier if LRR is 20%? (answer: 5)
- Name four functions of the RBI and two tools it uses to control credit.

WEAK-SPOT INDICATORS

- Cannot calculate the money multiplier ($1/LRR$) or gets ₹5,000 wrong.
- Confuses CRR with SLR, or M1 with M3.
- Thinks only the RBI creates money (not commercial banks too).
- Gets the direction wrong: thinks raising repo increases money supply.

WHEN TO WORRY — AND WHAT TO DO

If the credit-creation numerical or the CRR/repo direction is still wrong after revision, that is a real gap — this chapter rewards precise definitions and one clean numerical. Daily 15-minute drills for 2 weeks fix it.

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