St. Mira's College for Girls,
(Autonomous-Affiliated to SavitribaiPhule Pune University)
Class: FYBCOM
Subject: Banking and Finance
Subject Code: AC21507
SEM II
(2017-18)

Unit 1: Lending and Investment Functions of a Bank
Skill Development – Analytical ability - to decode the Principles of Lending and Investment to be followed by a Bank

0711 = 08/10

St. Mira's College for Girls
(Autonomous-Affiliated to Savitribai Phule Pune University)
Banking and Finance (F.Y.B.Com - SEM II)
Fundamentals of Banking and Finance (2017-2018)

(Flexi Test 2) Set 04 Total Marks: 10
Name: ALFARA · S · SHAIKH · Roll No.: 3016 (A).

Quiz

State and explain the Principles of Lending and Investments, relating to the following statements:

1. This principle implies easy convertibility into cash.

→ (Liquidity)

The principles of liquidity are as follows :-
In simple terms liquidity means ready/easy convertibility into cash within the shortest time possible and at least the cost.
According to sayers :- "Liquidity is the term used to describe the ability of a bank to satisfy the demand for cash.
From this angle cash in hand and cash at bank (cash reserve ratio) has the highest liquidity. another important feature of a liquidity is shiftability i.e ability of a bank to shift the assets to the other bank or the central bank of a country for eg. RBI.
From this angle bills of exchange has got the highest liquidity for any bank as compared to cash credit, loans, overdraft.
Thus a banker's strength is Judge by its ability to command liquidity and therefore the assets of a bank are arranged in descending order of liquidity for eg :- cash in hand, cash at bank, money at call and short notice, cash balances of other bank Investments, loans, advances etc.

Principal Incharge
St. Mira's College for Girls

18 copies

St. Mira's College for Girls
(Autonomous-Affiliated to Savitribai Phule Pune University)
Banking and Finance (F.Y.B.Com - SEM II)
Fundamentals of Banking and Finance (2017-2018)

2. A bank should avoid investing all its money in one industry.

→ Diversification of risk

This is another very important principle of lending and Investment to be followed by a bank according to this bank a prudent banker should avoid investing all its funds in one industry or a small group of industry or in a particular line of business or in a few securities. Similarly it should not lend money in one particular group of individuals or industry and lend against particular type of security.

32

In other words a bank should avoid putting all its eggs in one basket. If an industry is a failure or the market value of a particular ~~in~~ security fluctuates widely, the banker should not suffer a major loss.

Meenakshi Wagh MSWagh

Name and Signature of the Faculty:
Dr. Meenakshi Wagh

Principal Incharge
St. Mira's College for Girls

ST. MIRA'S COLLEGE FOR GIRLS * POONA 411001 *

2