



ICSE 2025 EXAMINATION
SPECIMEN QUESTION PAPER
ECONOMIC APPLICATIONS

Maximum Marks: 100

Time allowed: Two hours

Answers to this Paper must be written on the paper provided separately.

*You will **not** be allowed to write during the first 15 minutes.*

This time is to be spent in reading the question paper.

The time given at the head of this Paper is the time allowed for writing the answers.

*Attempt **all** questions from **Section A** and **any four** questions from **Section B**.*

The intended marks for questions or parts of questions are given in brackets[].

Instruction for the Supervising Examiner

Kindly read aloud the Instructions given above to all the candidates present in the Examination Hall.

SECTION A

(Attempt *all* questions from this Section.)

Question 1

[20]

Choose the correct answers to the questions from the given options.

(Do not copy the question, write the correct answers only.)

- (i) **Assertion (A):** The recent war in Israel will impact key imports to India, which include rough cut and polished diamonds.

Reasoning (R): Diamonds are luxury goods having relatively elastic demand.

- (a) A is true but R is false
- (b) A is false but R is true
- (c) Both A & R are true and R explains A
- (d) Both A & R are true but R does not explain A

[Analysis]

- (ii) In which exception to the law of demand does the consumer equate price and quality.

- (a) Bandwagon Effect
- (b) Veblen Effect
- (c) Giffen Effect
- (d) Conspicuous consumption

[Understanding]

- (iii) Which of the following pairs of goods are most likely substitutes?

- (a) Cucumber and salad dressing
- (b) Cola and lemon lime soda
- (c) Butter and gasoline
- (d) Compact discs and disc players

[Application]

(iv) Which of the following is NOT a land? (Amenable to human control)

- (a) Rain water
- (b) Gold mine
- (c) Crude oil in pipelines
- (d) Forest

[Recall]

(v) Which of the following is not a correct match?

- (a) Land free gift of nature
- (b) Entrepreneur – employs other factors
- (c) Capital-results savings
- (d) Labour-passive factor of production

[Understanding]

(vi) Selling costs are absent in perfect competition market.

- (a) True
- (b) False

[Recall]

(vii)



Which function of RBI is indicated by the above image?

- (a) Credit control
- (b) Lender of last resort
- (c) Monopoly of note issue
- (d) Banker's bank

[Analysis]

(viii) Match the following:

1	Savings account	P	For a fixed time period
2	Current account	Q	Deposited at an equal time period
3	Recurring account	R	No interest is paid
4	Fixed deposit	S	Nominal restriction in no. of withdrawals

- (a) 1(S) 2(R) 3(Q) 4(P)
- (b) 1(S) 2(P) 3(Q) 4(R)
- (c) 1(Q) 2(S) 3(R) 4(P)
- (d) 1(P) 2(R) 3(S) 4(Q)

[Understanding]

(ix) Which of the following is a selective method of credit control?

- (a) Bank Rate
- (b) Cash Credit
- (c) Open Market Operation
- (d) Moral Suasion

[Recall]

(x)

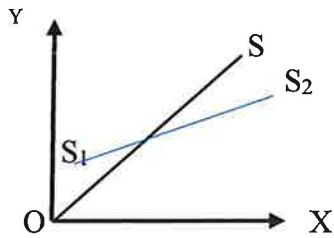


Identify what type of capital is it?

- (a) Social Capital
- (b) Revolving Capital
- (c) Money Capital
- (d) Real Capital

[Analysis]

- (xi) Identify the value of elasticity of supply for the supply curve OS and S_1S_2 .



- (a) $OS > 1, S_1S_2 < 1$
 (b) $OS < 1, S_1S_2 > 1$
 (c) $OS < 1, S_1S_2 = 1$
 (d) $OS = 1, S_1S_2 > 1$

[Understanding]

- (xii) Firm A hires the services of Rohit Sharma to act as the Brand ambassador for its products X. Identify the nature of market for commodity X.

- (a) Monopsony market
 (b) Monopoly market
 (c) Monopolistic competition
 (d) Perfect competition

[Application]

- (xiii) Identify the most efficient student:

Name of the student	No. of projects completed	Quality of projects	Time taken (in days)
P	5	Average	4
Q	5	Very good	4
R	5	Very good	7
S	6	Poor	3

- (a) P
 (b) Q
 (c) S
 (d) R

[Analysis]

(xiv) **Assertion (A):** Goods and Services Tax (GST) is an indirect tax

Reason (R): The impact and the incidence of tax are on two different person.

- (a) A is true but R is false
- (b) A is false but R is true
- (c) Both A & R are true R explains A
- (d) Both A & R are true bit R does not explain A

[Analysis]

(xv) If demand increases by 50% due to an increase in price by 75%, calculate the price elasticity of demand.

- (a) 0.25
- (b) 0.67
- (c) 1.50
- (d) 0.75

[Evaluate]

(xvi)



The picture above shows which factor of production.

- (a) Land
- (b) Labour
- (c) Capital
- (d) Entrepreneur

[Analysis]

- (xvii) Observe the relationship of the first pair of words and complete the second pair.

During inflation the debtors gain and _____ lose.

- (a) Creditors
- (b) Producers
- (c) Businessman
- (d) Shopkeeper

[Understanding]

- (xviii) **Assertion (A):** The rate of tax increases to a certain limit and then becomes constant.

Reason (R): This system is a combination of progressive tax and regressive tax.

- (a) A is true but R is false
- (b) A is false but R is true
- (c) Both A & R are true R explains A
- (d) Both A & R are true bit R does not explain A

[Analysis]

- (xix) If commodity X and Y are substitutes, increase in price of X will affect demand of Y how?

- (a) Increase
- (b) Decrease
- (c) Remain same
- (d) Uncertain

[Recall]

- (xx) The process of adding to the stock of capital over time is capital formation

- (a) True
- (b) False

[Recall]

Question 2

- (i) Calculate elasticity of demand on the basis of the following data [2]

Price (Rs.)	Quantity (Kg)
10	20
20	15

- (a) Calculate the elasticity of demand.
- (b) Is the demand elastic or inelastic? [Evaluate]
- (ii) Money performs both primary and secondary functions. [2]

Identify a specific function of money which is related to future payments. State a reason.

[Understanding]

- (iii) State the differences between a loan and an overdraft. [2]

[Understanding]

- (iv) The income tax slab rates are given below. Explain the types of taxation represented in slab 3 and slab 4. [2]

(a) upto Rs. 1,60,000 = No tax.

(b) Rs. 1,60,001 to Rs. 5,00,000 = 10%

(c) Rs. 5,00,001 to Rs. 8,00,000 = 20%

(d) Above Rs. 8,00,000 = 30%

[Understanding]

- (v) Derive the market supply from the market supply schedule of two firms A and B [2]

Price	A	B	Ms
2	10	7	?
3	12	8	?
4	14	9	?
5	16	11	?
6	18	13	?

[Evaluate]

Question 3

- (i) “Construction of Dams can have negative impacts on the ecosystem” [2]

– Is this statement True or False? Justify. (Any two points)

[Understanding]

- (ii) What is the shape of the demand curve faced by any monopoly firm? [2]
Support your answer with a diagram. [Understanding]
- (iii) Explain time utility with an example. [2]
[Understanding]
- (iv) State two dissimilarities between Monopolistic competition and Perfect competition. [2]
[Understanding]
- (v) Is a multiple use power generating machine owned by a factory, sunk capital or floating capital? Give two arguments to support of your answer. [2]
[Understanding]

SECTION B

(Answer any four questions from this Section.)

Question 4

- (i) Name the bank which has sole authority to issue currency in India. [7]
Mention three ways it differs from Commercial bank. [Recall & Understanding]
- (ii) With reference to the picture given below answer the questions that follow: [8]



- (a) Define the concept. [Analysis & Recall]
- (b) Explain any three types of the concept.

Question 5

- (i) Explain the terms impact and incidence of a tax? Explain in brief two merits of direct tax. [7]
[Understanding]
- (ii) What is Disinvestment Policy? Explain any three problems of public sector undertakings in India. [8]
[Understanding]

Question 6

- (i) Prepare a hypothetical market demand schedule and draw a market demand curve based on it. [7]
[Evaluate]
- (ii) (a) Define Money. [8]
(b) Distinguish between fixed deposit and demand deposit. (*Any two*)
(c) Explain any four advantages of a bank account. [Recall & Understanding]

Question 7

- (i) “The inverse relationship between price and quantity demanded does not hold good in many cases.” [7]
(a) Justify the above as Yes or No.
(b) If justified, explain in brief the Giffen Effect. [Understanding]
- (ii) What do you mean by productivity of Land? [8]
How would the following effect the productivity of Land?
(a) Location
(b) Investment on Land
(c) Security of Tenancy [Recall]

Question 8

- (i) Name the factors of production and justify the following in brief: [7]
(a) Division of labour encourages large scale production.
(b) Capital is an immobile factor in the short run. [Recall]

(ii)



[8]

“While shopping for fruits in the local market you see many seller selling fruits”. In this context answer the following:

- (a) What is the type of market referred to?
- (b) State and draw the type of demand curve faced by the market above.
- (c) Differentiate between the market indicated above and monopoly on the basis of:
 1. No. of sellers
 2. Market price
 3. Entry and exit of firms in the market

[Recall &
Understanding]

Question 9

- (i) Read the extract given below and answer the questions.

[7]

The Economic Times – 2024

“Lakshadweep becomes new keyword for investors. Praveg caught share holder’s attention as it had last month received a work order for the development of operation, maintenance and management of at least 50 tents at Lakshadweep’s island. The resorts will also offer commercial activities like scuba diving, destination weddings, corporate functions etc. Small cap soars 43% in 3 days. It is known for its luxury resorts in tourist places. During the day the stock rallied 17% to hit an all time high of Rs. 1,187.95

- (a) What commercial activities would the resorts offer?
- (b) State the quality of a factor of production highlighted above.
- (c) Define price elasticity of demand.
- (d) State the doctrine of Laissez faire.

[Analysis &
Recall]

(ii)



[8]

The Central bank is having the authority to regulate the amount of money supply in the economy.

Based on the above explain the following.

- (a) Credit Rationing
- (b) CRR .
- (c) Regulation of Margin Requirements.
- (d) Bank Rate

[Analysis &
Recall]



ICSE 2025 – SPECIMEN PAPER

DRAFT MARKING SCHEME – ECONOMIC APPLICATIONS

Question 1		[20]
(i)	(d) Both A & R are true but R does not explain A	
(ii)	(b) Veblen Effect	
(iii)	(b) Cola and lemon lime soda	
(iv)	(a) Rain water	
(v)	(d) Labour-passive factor of production	
(vi)	(a) True	
(vii)	(c) Monopoly of note issue	
(viii)	(a) 1(S) 2(R) 3(Q) 4(P)	
(ix)	(d) Moral Suasion	
(x)	(c) Money Capital	
(xi)	(d) $OS = 1, S_1S_2 > 1$	
(xii)	(c) Monopolistic competition	
(xiii)	(b) Q	
(xiv)	(c) Both A & R are true R explains A	
(xv)	(b) 0.67	
(xvi)	(d) Entrepreneur	
(xvii)	(a) Creditors	
(xviii)	(a) A is true but R is false	
(xix)	(a) Increase	
(xx)	(a) True	
Question 2		
(i)	<p>(a) $Ed = \frac{\Delta Q}{\Delta P} \times \frac{P}{Q}$</p> <p>Here, $\Delta Q = 5$ $\Delta P = 10$</p> <p>$Q = 20$ $P = 10$</p> <p>By putting these values:</p> $Ed = \frac{5}{10} \times \frac{10}{20} = \frac{1}{4} = 0.25$ <p>(b) Demand here is less elastic</p>	[2]
(ii)	<p>Standard of deferred payment, a secondary function of money.</p> <p>Credit is needed when we cannot pay now for a commodity or service that we wish to consume now.</p>	[2]

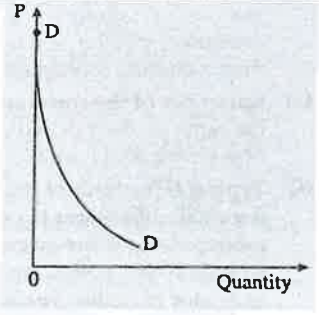
(iii)	LOAN	OVERDRAFT	[2]
	Opened against the name of the borrower who can take loan for short, medium and long terms	When an account holder requires credit in excess of his or her deposit amount are allowed to borrow the excess amount for short period	
	This facility can be availed by any type of account holder. It charges interest of the entire loan amount	It is provided to the current account holders. Bank charges interest rate only on this excess amount	

(iv) The types of taxation that is income tax represented in slab 3 and 4 indicates a progressive taxation. The tax rate increases with an increase in the income slab of the income earner. [2]

(v)	Price	A	B	Ms	[2]
	2	10	7	17	
	3	12	8	20	
	4	14	9	23	
	5	16	11	27	
	6	18	13	31	

Question 3

(i) TRUE [2]
Reason:
(a) Inundation of forest areas – natural Habitats of a large variety of insects, reptiles etc. are destroyed and the forest land ecosystem gets damaged.
(b) Blocking the flow of river water – Formation of an artificial lake significantly alters the ecological condition of the river and adversely affects the fresh water eco system.

(ii)  [2]
The monopolist faces the aggregate demand curve

(iii) Utility can also be created by making some stock of goods at one time and by supplying the same at another time period. e.g. Food Corporation of India creates time utility by creating a buffer stock of food grains in the harvesting season and releasing the same at a reasonable price in the lean season. [2]



(iv)	<p>Dissimilarities:</p> <table border="1" data-bbox="304 230 1385 629"> <thead> <tr> <th data-bbox="304 230 842 282">PERFECT COMPETITION</th> <th data-bbox="842 230 1385 282">MONOPOLISTIC COMPETITION</th> </tr> </thead> <tbody> <tr> <td data-bbox="304 282 842 338">1. Sells homogeneous products.</td> <td data-bbox="842 282 1385 338">1. Sells differentiated products.</td> </tr> <tr> <td data-bbox="304 338 842 427">2. Faces a completely elastic demand curve.</td> <td data-bbox="842 338 1385 427">2. Faces a relatively elastic demand curve.</td> </tr> <tr> <td data-bbox="304 427 842 483">3. A price taker</td> <td data-bbox="842 427 1385 483">3. A price maker.</td> </tr> <tr> <td data-bbox="304 483 842 539">4. Selling costs do not exist.</td> <td data-bbox="842 483 1385 539">4. Selling costs play a crucial role</td> </tr> <tr> <td data-bbox="304 539 842 629">5. Production capacity is fully utilized in the long run.</td> <td data-bbox="842 539 1385 629">5. Production capacity is not fully utilized in the long run.</td> </tr> </tbody> </table> <p style="text-align: right;"><i>(Any two)</i></p>	PERFECT COMPETITION	MONOPOLISTIC COMPETITION	1. Sells homogeneous products.	1. Sells differentiated products.	2. Faces a completely elastic demand curve.	2. Faces a relatively elastic demand curve.	3. A price taker	3. A price maker.	4. Selling costs do not exist.	4. Selling costs play a crucial role	5. Production capacity is fully utilized in the long run.	5. Production capacity is not fully utilized in the long run.	[2]		
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(v)	<p>Floating capital</p> <p>(a) it is not use specific</p> <p>(b) It can be transferred from one line of production to another</p>	[2]														
Question 4																
(i)	<p>Reserve Bank of India (RBI)</p> <table border="1" data-bbox="268 1039 1305 1951"> <thead> <tr> <th data-bbox="268 1039 786 1111">Central Bank</th> <th data-bbox="786 1039 1305 1111">Commercial Bank</th> </tr> </thead> <tbody> <tr> <td data-bbox="268 1111 786 1350">Central Bank is the apex financial institution of the country that is concerned with formation of monetary policies and the way money should be regulated in the economy</td> <td data-bbox="786 1111 1305 1350">It is a type of financial institution that is concerned with providing banking services to the general public and businesses by facilitating deposit offering loan facilities</td> </tr> <tr> <td data-bbox="268 1350 786 1440">It is owned by the state</td> <td data-bbox="786 1350 1305 1440">It may be state owned or privately owned institution</td> </tr> <tr> <td data-bbox="268 1440 786 1608">To promote economic growth of the nation and create condition towards a stable monetary system in the economy</td> <td data-bbox="786 1440 1305 1608">The primary objective is to earn profits.</td> </tr> <tr> <td data-bbox="268 1608 786 1731">It is a banker to the government and acts as the banker's bank. It does not deal with public.</td> <td data-bbox="786 1608 1305 1731">It deals with the public</td> </tr> <tr> <td data-bbox="268 1731 786 1787">It enjoys the monopoly of note issue</td> <td data-bbox="786 1731 1305 1787">They are not allowed to issue notes</td> </tr> <tr> <td data-bbox="268 1787 786 1951">It is the controller of the credit system in the country</td> <td data-bbox="786 1787 1305 1951">It creates credit for promotion of trade, industry and economic growth, as per the directives of the central bank</td> </tr> </tbody> </table> <p style="text-align: right;"><i>(Any three)</i></p>	Central Bank	Commercial Bank	Central Bank is the apex financial institution of the country that is concerned with formation of monetary policies and the way money should be regulated in the economy	It is a type of financial institution that is concerned with providing banking services to the general public and businesses by facilitating deposit offering loan facilities	It is owned by the state	It may be state owned or privately owned institution	To promote economic growth of the nation and create condition towards a stable monetary system in the economy	The primary objective is to earn profits.	It is a banker to the government and acts as the banker's bank. It does not deal with public.	It deals with the public	It enjoys the monopoly of note issue	They are not allowed to issue notes	It is the controller of the credit system in the country	It creates credit for promotion of trade, industry and economic growth, as per the directives of the central bank	[7]
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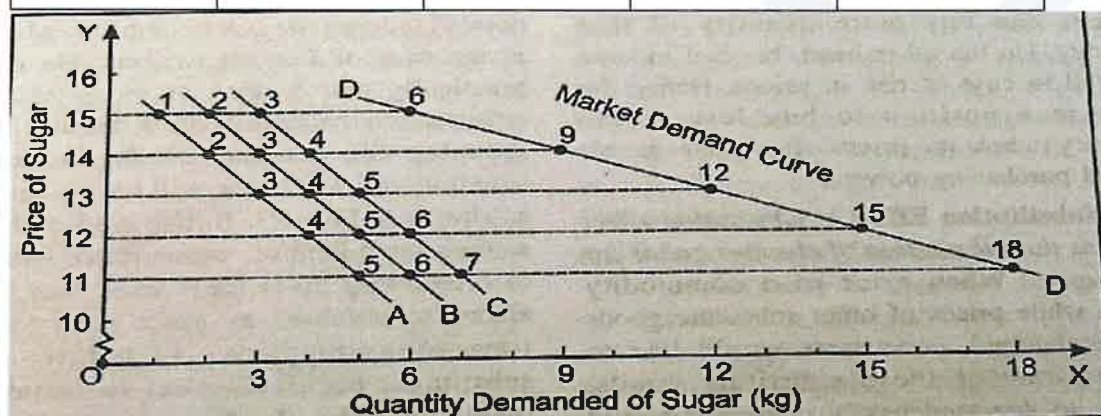
(ii)	<p>Inflation.</p> <p>Inflation is defined as a consistent / sustained increase in the aggregate price level and fall in the value of money.</p> <p>Types:</p> <p>Creeping inflation- Price level increases at a very slow rate – 2 to 2.5 % per annum</p> <p>Walking Inflation – Price level of the economy increases at the rate of 5-6% per annum</p> <p>Running Inflation – Price level rises at the rate of 10 – 20 % per annum</p> <p>Hyper Inflation – When the general price level increase at the rate of 200% or more per month</p>	[8]
Question 5		
(i)	<p>The person or institution who bears the tax burden for the first instance, is called the impact of taxation. However, the person or institution who ultimately bears the burden of tax is called the incidence point of a tax.</p> <p>Merits of direct taxes:</p> <ul style="list-style-type: none">(a) Equity can be ensured(b) Certainty(c) Elasticity(d) Economy(e) Fostering social consciousness <p><i>(Explain any two of the above points in detail)</i></p>	[7]
(ii)	<p>Disinvestment policy:</p> <p>The government of India planned for the selling of shares of some of the profit making public sector enterprises to the private sector. This is known as disinvestment policy. This has been the major plank of the privatization programme in India.</p> <p>Problems of public sector enterprise:</p> <ul style="list-style-type: none">- Low efficiency- Low profitability- Sick units- Underutilization of plant capacity- Lack of rational pricing policy- Faculty location of projects- Undue delay in project completion- Inefficient management- Lack of dynamism- Lack of functional autonomy- Labour Problems <p><i>(Explain any three of the above points in detail)</i></p>	[8]

Question 6

(i) Market Demand schedule of:

[7]

Price of Sugar (Rs.)	Demand by consumer A (kg)	Demand by Consumer B (kg)	Demand by Consumer C (kg)	Market Demand
20	1	2	3	6
19	2	3	4	9
18	3	4	5	12
17	4	5	6	15
16	5	6	7	18



(ii) (a) According to Crowther, “Anything that is generally acceptable as a means of exchange and at the same time acts as a measure and store of value”, is defined as money.

[8]

(b)

FIXED DEPOSIT	DEMAND DEPOSIT
This amount can be withdrawn only after a given maturity period	This amount can be withdrawn anytime on demand
The rate of interest on this deposit remain relatively high	The rate of interest on this deposit is relatively low

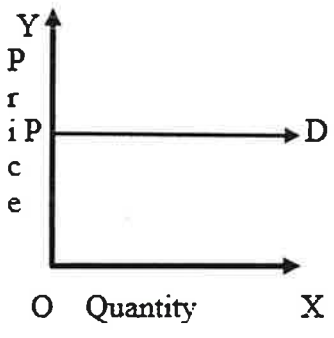
(c) Advantages of a bank account:

- Mobilization of small savings
- Creation of interest income
- Secured deposit and easy withdrawal
- Overdraft facility
- Making business transaction easier
- Safe transaction
- Facility of electronics clearing system
- Loan facilities against bank deposit

(Explain any 4 of the above)



Question 7		
(i)	<p>(a) YES.</p> <p>(b) Sir Robert Giffen observed that a typical inferior commodity consumed by the poor people may display an odd behavior. When the price of such a commodity rises the poor people may cut down on their purchase of other more expensive items and increase their purchases of this commodity. e.g In Ireland during 19th century most of the poor people spent maximum part of their income on cheap potatoes. They purchased very little quantities of meat which was costlier. When the price of potatoes increase these people began to spend more on buying potatoes by reducing their expenditure on costly meat. They purchased this inferior product just to meet their minimum consumption needs.</p>	[7]
(ii)	<p>The capability of land in raising the output of a nation may be termed as its productivity. It is measured by the yield per hectare of land.</p> <p>Effects:</p> <p>(a) Location: Productivity sometimes depends on the location. In case of agricultural land, location we have advantages with respect to irrigation on marketing. E.q If the land is situated near a water source irrigation becomes easy and the land becomes highly productive.</p> <p>(b) Investment on land: It is also an important determinant of the productivity of land. Investment means any expenditure that is undertaken for constructing an asset for the purpose of enhancing the productive power of land. E.g. Construction of irrigation facilities is an example of investment on land. Higher the investment, higher will be the productivity of land in future.</p> <p>(c) Security of Tenancy: Land is always used by a tenant cultivator. The productivity of land depends on the security of the tenant. If the tenant is not certain whether his tenancy will be renewed he will not be enthusiastic about and investment this year because by the time the investment will start yielding results, he may no longer be the tenant.</p>	[8]
Question 8		
(i)	<p>Land, Labour, Capital and Entrepreneur.</p> <p>(a) Division of labour encourages large scale production- it leads to large scale of production and thereby gives rise to economies of scale.</p> <p>(b) Capital is an immobile factor in the short run- Most capital equipments once constructed are immobile. Most of the machinery are specific; they must either be used for the purpose for which they were built or not used at all. Physical capital is therefore immobile in the short run.</p>	[7]

(ii)	<p>(a) Perfectly Competitive market.</p> <p>(b) A perfectly elastic demand curve (either the curve can be drawn or stated)</p> <div style="text-align: center;">  </div> <p>(b)</p> <table border="1" data-bbox="303 716 1356 1164"> <thead> <tr> <th>Perfect Competition</th> <th>Monopoly</th> </tr> </thead> <tbody> <tr> <td>There are many buyers and sellers in the market.</td> <td>There is a single seller and many buyers in the market.</td> </tr> <tr> <td>A firm can freely enter into or exit from the market.</td> <td>There are barriers upon the entry of new firms into the market.</td> </tr> <tr> <td>Control of an individual firm over the market price is nil and each firm sells the product at a fixed price determined by the market forces. Each firm is a price taker.</td> <td>The monopoly firm has substantial control over the market price. So, here each firm is a price maker.</td> </tr> </tbody> </table>	Perfect Competition	Monopoly	There are many buyers and sellers in the market.	There is a single seller and many buyers in the market.	A firm can freely enter into or exit from the market.	There are barriers upon the entry of new firms into the market.	Control of an individual firm over the market price is nil and each firm sells the product at a fixed price determined by the market forces. Each firm is a price taker.	The monopoly firm has substantial control over the market price. So, here each firm is a price maker.	[8]
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Control of an individual firm over the market price is nil and each firm sells the product at a fixed price determined by the market forces. Each firm is a price taker.	The monopoly firm has substantial control over the market price. So, here each firm is a price maker.									

Question 9

(i)	<p>(a) Scuba diving, Destination weddings & Corporate functions.</p> <p>(b) Innovative power of an Entrepreneur.</p> <p>(c) The price elasticity of Demand indicates the responsiveness of quantity demanded for any commodity due to one % change in the price of that commodity. This is price elasticity of demand.</p> <p>$E_p = (-) \% \text{ age change in the Quantity demanded} / \% \text{ age change in the price}$</p> <p>During the 19th century, it was believed that the state or the government should not intervene in the economic activities within a country. This is known as the Doctrine of Laissez faire. (At present however, it is universally recognized that the state must play a positive role in the process of economic development of a country.)</p>	[7]
(ii)	<p>Credit Rationing: It aims at fixing the maximum limit of loans for a specific purpose. The Central bank may fix the maximum amount of loans for every commercial bank. It may fix the maximum amount of loan which a bank can give for a specific purpose.</p> <p>Cash Reserve Requirement: According to the RBI act 1934 every commercial bank had to keep a certain minimum cash reserve with the RBI. During inflation the RBI increases the rate of cash reserve requirements, similarly it reduces the rate at the time of deflation.</p> <p>Regulation of Margin Requirements: Commercial banks usually give loans to their customers against some securities. Such loans are known as secured loans. Banks do not give loans to the full amount of the value of the security, but an amount less than its value.</p>	[8]



The difference between the value of the security and the amount of loan sanctioned against that security is known as the margin requirement. The bank keeps this margin to protect themselves against any fall in the value of the security. RBI influences the availability of bank credit by fixing this margin requirement.

Bank Rate: This is -that discount rate at which the Central bank of any country rediscounts any bill of exchange submitted by any commercial bank to take loans from the central bank. It is the interest rate at which the commercial banks borrow credit money from the RBI. To check inflationary pressure, the RBI increases the bank rate and is called 'Dear money Policy'. On the other hand, the RBI keeps the bank rate at a low level to check the deflationary situation and is known as 'Cheap money Policy'.