

MONEY AND BANKING

STUDY-NOTES

- **Barter system:** The barter system facilitated exchange of goods and services on behalf of other goods & services before the advent of the monetary system.

- **Limitations of Barter system**

The major limitations of Barter Exchange are:

1. **Lack of Double Coincidence of Wants:** Barter system can work only when both buyer and seller are ready to exchange each other's goods.

2. **Lack of Common Measure of Value:** In the barter system, all commodities are not of equal value and there is no common measure (unit) of value of goods and services, in which exchange ratios can be expressed.

3. **Lack of Standard of Deferred Payment:** Under barter system, contracts involving future payments or credit transactions cannot take place with ease because of following reasons:

- (a) The borrower may not be able to arrange goods of exactly the same quality at the time of repayment.
- (b) There may be conflicts regarding which specific commodity is to be used for repayment.
- (c) The commodity to be repaid may lose or gain its value at the time of repayment.

So, it is very difficult to make deferred payments in the form of goods.

4. **Lack of Store of Value:** Under barter system, it is difficult for people to store wealth for future use because:

- (a) Most of the goods (like wheat, rice, vegetables, etc.) do not possess durability, i.e. their quality deteriorates with passage of time.
- (b) Storage of goods requires time and effort.

- **Money:** Money is anything which is accepted as a medium of exchange. Money is anything that is generally accepted as a medium of exchange, and can be used as a measure and store of value.

Forms of Money:

- Fiat Money is that money which is issued by order of the government.
- Fiduciary Money is that money which is accepted as a medium of exchange because of the trust between the payer and the payee.
- Full Bodied Money: Money value = Commodity value of money.
- Credit Money: Money value of coins and notes is greater than Commodity value of coins and notes.

Functions of Money

- Primary Functions – Medium of exchange and Standard unit of value
- Secondary Functions – Standard of deferred payment; Store of value and Transfer of value

Money supply - refers to the total volume of money held by the public at a particular time in an economy.

Features of money supply:

1. It includes 'money held by public only',
2. It is a stock concept

Components of Money Supply

- $M_1 = \text{Currency with Public} + \text{Demand Deposits with Commercial Banks} + \text{Other Deposits with the Reserve Bank.}$
- $M_2 = M_1 + \text{savings deposits with post office saving bank}$

- $M_3 = M1 + \text{net time deposits with banks}$
- $M_4 = M_3 + \text{Total deposits with post office saving bank (excluding NSC)}$
- **COMMERCIAL BANK:** A commercial bank is a financial institution that accepts deposits, offers checking and savings account services, and makes loans.
- **Credit creation:** The process of advancing loan on the basis of primary deposits, many times as compared to their cash reserves.
- **Credit Multiplier:** The reciprocal of reserve requirements (RR). It shows how many times of reserve requirements credit can be generated by a bank.

Money multiplier = $1/LRR$

* LRR = Legal Reserve Ratio

- **Central Bank:** The Central Bank is an apex bank of a country which controls the entire banking system. Central bank is a national bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.

- **Functions of Central Bank:**

- Currency regulator or bank of issue.(Bank of issuing notes)
- Bank to the government.
- Custodian of Cash reserves.
- Custodian of International currency (foreign exchange).
- Lender of last resort.
- Clearing house function for transfer and settlement.
- Controller of credit.
- Protecting depositors interests.
- Bankers' bank and supervisory role

- **TWO ESSENTIAL CONDITIONS TO BECOME A BANK**

1. Accepting deposits
2. Advancing of loans

- **Control on credit creation:** Through the monetary policy RBI performs this function for this RBI uses:
 - Quantitative instruments and
 - Qualitative instruments.
- **Quantitative Instruments:** Tools which will affect the total volume of money supply in the Economy. (Bank Rate, Cash reserve ratio, Statutory Liquidity ratio, Open market operation, Repo rate, reverse repo rate)
- **Qualitative instruments:** Tools which do not affect the volume of money supply in the economy but they can affect the direction of money supply. (Margin requirements, Moral Suasion, selective credit control)
- **Open Market Operation:** Open market operation refers to sale and purchase of government securities by RBI in the open market on behalf of government
- **Repurchasing Option Rate:** The interest rate at which RBI lends money to commercial banks for short run is called Repo rate.
- **Reverse Repurchasing Option Rate:** It is the rate at which commercial banks can deposit their excess funds with RBI or central bank.
- **Qualitative Tools:** It refers to the tools which do not affect the volume of money supply in the economy but they can affect the direction of money supply.
- **Margin Requirement:** It refers to the difference between the value of asset which is mortgage and amount of loan.

- **Demonetisation:** Demonetisation was a new initiative taken by the Government of India in November 2016 to tackle the problem of corruption, black money, terrorism and circulation of fake currency in the economy.

Old currency notes of ₹500, and ₹1000 were no longer legal tender. New currency notes in the denomination of ₹500 and ₹2000 were launched. The public were advised to deposit old currency notes in their bank account till 31 December 2016 without any declaration and upto 31, March 2017 with the RBI with declaration.

Tax compliance will improve and corruption will decrease. Demonetisation could also help tax administration in another way, by shifting transactions out of the cash economy into the formal payment system. Households and firms have begun to shift from cash to electronic payment technologies.

QUESTION BANK

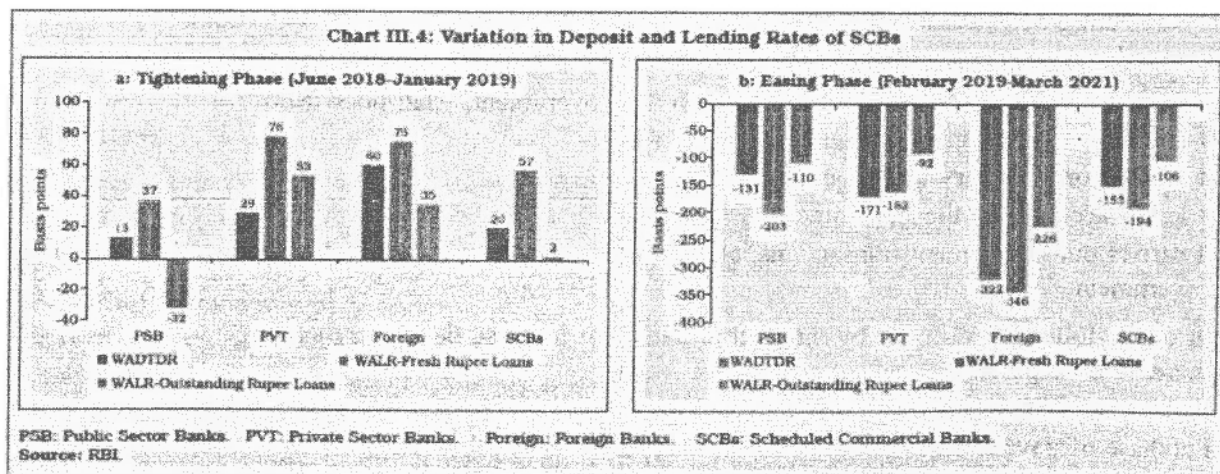
MULTIPLE CHOICE QUESTIONS

- Supply of money is
 - Flow variable
 - Stock variable
 - Real flow
 - Money flow
- Monetary policy is the policy of
 - Government
 - Central Bank
 - Commercial Bank
 - NABARD
- Which of the following tools are used by the central bank to control the flow of money in the domestic economy?
 - Fiscal tools
 - Quantitative monetary tools
 - Qualitative monetary tools
 - Both (b) and (c)
- The bank that operates without any profit motive in public interest is
 - Central Bank
 - Nationalized Commercial Bank
 - Canara Bank
 - Punjab National Bank
- CRR stands for
 - Credit Reserve Ratio
 - Cash Reserve Ratio
 - Commercial Reserve Ratio
 - Central Reserve Ratio
- Demand deposits include:
 - Saving Account deposits and fixed deposits
 - Saving account deposits and current account deposits
 - Current deposits and fixed deposits
 - all types of deposits
- The system in which trade can be done by exchange of goods and services is called:
 - Barter System
 - Money System
 - Good system
 - None of the above
- Barter exchange presumes
 - Coincidence of needs
 - Double coincidence of wants
 - Unilateral transfers
 - Lack of enough money
- What solves the problem of double coincidence of wants?
 - Goods
 - Money
 - Bank
 - All of the above
- An individual is willing to buy wheat in exchange for cloth. In such a case, the condition of double coincidence of wants is satisfied. However, another problem that arises in this exchange is the exchange value of cloth and wheat. The given example describes:
 - Lack of double coincidence of wants
 - Lack of common measure of value
 - Lack of standard of deferred payments
 - Difficulty of storage of value
- Bank rate for controlling credit is applicable in the
 - Very Short run
 - Short run
 - Medium run
 - Long run

12. Open market operation is done by
 (a) Commercial bank (b) Rural Bank (c) World bank (d) Central Bank
13. M_3 is consist of:
 (a) C + OD + Time deposits (b) C + DD + OD + time deposits
 (c) M_1 + deposits of post office saving bank (d) All of above
14. In which of the following situations, money plays no role?
 (a) If the economy consists of only one individual.
 (b) If the economy consists of two individuals who are related to each other.
 (c) If the economy focuses on barter exchange.
 (d) Both (a) and (b)
15. What happens to the purchasing power of money as the price level increases?
 (a) It deteriorates. (b) It increases.
 (c) It stays the same. (d) It depends on the economic situation.
16. What is/are the limitations of barter exchange?
 (a) It takes a lot of time and effort. (b) It is difficult to carry forward one's wealth.
 (c) There is a high storage cost of perishable items. (d) All of the above
17. Which among the following can act as a store of value?
 (a) Gold (b) Property (c) Bonds (d) All of the above
18. During the last few years' initiatives such as Jan-Dhan Yojna, Aadhar enabled payment systems, e-wallets and digital India have focused on what type of economy?
 (a) Cash economy (b) Cashless economy (c) Barter economy (d) Capitalist economy
19. What term is being increasingly used for financial inclusion nowadays?
 (a) Realistic dream (b) Farfetched
 (c) Impossible (d) Unattainable in such a big country
20. Which of the following is the function of money?
 (a) Medium of exchange (b) Store of Value (c) Measure of Value (d) All of the above
21. _____ serves as the convenient unit of account.
 (a) Books of Account (b) Money (c) Passbook (d) Barter Exchange
22. Money acts as a
 (a) Reason of exchange (b) Good of exchange (c) Medium of exchange (d) Service of exchange
23. Two essential conditions to become a Bank:
 (a) Accepting deposits (b) Advancing of loans (c) Both (a) and (b) (d) None of these
24. "It refers to the difference between the value of an asset which is a mortgage and the amount of loan."
 (a) Margin requirements (b) Profit margin (c) Loan (d) None of above
25. It is the rate at which commercial banks can deposit their excess funds with RBI or central bank:
 (a) Reverse Repurchasing Option Rate (b) Repurchasing Option Rate
 (c) Option Rate (d) Selling Option Rate
26. How does increase in deposits with commercial banks will affect credit creation process:
 (a) Credit creation process will increase (b) Credit creation process will remain unaffected
 (c) Credit creation process will reduce (d) None of these
27. The components of money supply are:
 (a) Currency held by the public
 (b) Demand deposits of the public in commercial banks
 (c) Other deposits with the RBI
 (d) Currency held by the public and demand deposit of the public in commercial banks

28. Qualitative instruments includes EXCEPT:
 (a) Margin Requirement (b) Bank Rate (c) Rationing of credit (d) Moral Suasion
29. Which one of the following is used for credit creation:
 (a) $K = 1/LRR$ (b) $K = 1/SLR$ (c) $K = 1/\text{Bank Rate}$ (d) $K = 1/\text{Repo Rate}$
30. Quantitative credit control deals with:
 (a) Quantity of money supply (b) increase in money supply
 (c) decrease in money supply (d) no change in money supply
31. "In Singapore, the Monetary Authority of Singapore strategically reviews its Monetary Policy to promote price stability as a sound basis for sustainable economic growth" who frames monetary policy in India?
 (a) Group of all commercial banks (b) Central Government
 (c) Reserve bank of India (d) None of above
32. Which of the following is the function of the Central Bank?
 (a) Accepting deposits from the general public (b) Giving loans to general public
 (c) Banker's Bank (d) Credit Creation
33. Bank rate is for:
 (a) Central bank by the central bank (b) Commercial bank by the government
 (c) Central Bank by commercial Bank (d) Commercial Bank by central bank
34. Identify qualitative measure of central bank:
 (a) Bank rate (b) Open market operation
 (c) Margin Requirement (d) Cash reserve ratio
35. Quantitative instrument of monetary policy includes:
 (a) Margin Requirement (b) Direct Action
 (c) Statutory Liquidity Ratio (d) Rationing of Credit
36. The lender of the last resort is the function of:
 (a) Rural Bank (b) Central Bank (c) Post office (d) Commercial bank
37. Read the following dialogue between two people:
 Kartik: I want a football
 Shreyansh : What will you give in exchange?
 Kartik: I will give a new pair of shoes
 Shreyansh: I don't need shoes, I want a school bag.
 Which of the following problems is faced by Shreyansh and Kartik?
 (a) Lack of store of value (b) Lack of double coincidence of wants
 (c) Absence of common unit of value (d) Lack of standard deferred payment
38. While calculating M_1 measurement of money supply, which of following are not include:
 (a) Demand deposits (b) Term deposit (c) Both (a) and (b) (d) None of above
39. When the central government acts as a banker to the government, what does it do?
 (a) It carries out government transactions
 (b) It advises on monetary and financial matters
 (c) It keeps accounts of the government
 (d) It carries out government transactions, advises on monetary and financial matters and keeps accounts of the government
40. Which of the following changes by the central bank can increase the money supply?
 (a) Increase in Repo Rate
 (b) Increase in CRR
 (c) Purchase of government securities in the open market
 (d) Sale of government securities in the open market

41. Credit Control means:
- (a) Contraction of credit only (b) Extension and contraction of money supply
(c) Extension of credit only (d) Supply of money remains the same
42. Which of the following is the supplier of money?
- (a) Government and banking system (b) Cooperative societies
(c) General public (d) Life insurance corporation
43. Fixed deposit is also termed as :
- (a) Chequable deposits (b) Demand deposit
(c) Time deposit (d) Non-Chequable deposits
44. What will be the effect of an increase in repo rate on money supply?
- (a) Money supply will increase (b) Money supply will decrease
(c) Money supply will remain the same
(d) Money supply will initially increase and then it will decrease
45. What will be the value of the multiplier if LRR is 10%.
- (a) 5 times (b) 1 times (c) 10 times (d) 100 times
46. "Monetary policy and liquidity operations during 2020-21 were geared towards mitigating the impact of COVID-19 pandemic. "Monetary policy is implemented by:
- (a) Government (b) Central bank (c) Commercial bank (d) All of above
47. "In order to encourage banks to deploy surplus funds in investments and loans in productive sectors of the economy, the fixed rate reverse repo rate under the LAF was reduced by 25 bps (from 4.0% to 3.75%) without concomitant changes in the MSF and the repo rate on April 17, 2020" which of the following statement is correct.
- (a) Repo rate and reverse repo rate are always equal (b) Repo rate is always less than reverse repo rate
(c) Reverse repo rate is always less than Repo rate (d) None of above
48. The value of credit multiplier will be high when
- (a) Cash reserve ratio is high (b) Cash reserve ratio is low
(c) Cash reserve ratio is zero (d) Cash reserve ratio is infinity
49. Across bank groups, the transmission to deposit and lending interest rates has been uneven. Foreign banks' low cost and lower duration deposits enable them to make quick adjustments in response to policy rate changes. On the other hand, the public sector banks depend more on retail term deposits and face competition from alternative saving instruments like small savings, constraining them from lowering rates in sync with the policy rate. Following foreign banks, private sector banks exhibited greater transmission in terms of WADTDR. However, WALR on fresh rupee loans and outstanding loans declined more for public sector banks than their private counterparts.



On basis of above given information, check is there any effect of covid-19 on “variation in deposit and lending rates of scheduled commercial banks:

- (a) Yes (b) No (c) May be (d) May not be

50. Money Market Operations as on April 03, 2022:

Money Market Operations as on April 03, 2022		Date : Apr 04, 2022
(Amount in ₹ crore, Rate in Per cent)		
MONEY MARKETS		

This above given money market operations table is published by:

- (a) Any of commercial bank (b) Central bank
(c) Any financial institution (d) None of above

51. “Cassette - Swaps in ATMs

Please refer to the circulars dated July 12, 2021 on the captioned subject wherein banks were advised to consider using lockable cassettes in their ATMs which shall be swapped at the time of cash replenishment. The same was advised to be implemented in a phased manner covering at least one third of ATMs operated by the banks every year, such that all ATMs achieve cassette swap by March 31, 2021, which was later extended to March 31, 2022.”

The above given notification is issued by:

- (a) Government (b) Public (c) Financial manager (d) Reserve Bank of India

52. Banks also earn money from interest they earn by lending out money to other clients. The funds they lend comes from customer deposits. However, the amount paid by the bank on the money they borrow is less than the rate charged on the money they lend, this paid amount is called:

- (a) interest rate (b) Total (c) Installment (d) None of above

53. When value of money multiplier is 25 and value of CRR is 1%, the value of SLR is:

- (a) 1% (b) 2% (c) 3% (d) 4%

54. When the value of LRR is 40%, the value of money multiplier is:

- (a) 10 (b) 2.5 (c) 20 (d) 25

55. Which of the following will increase the supply of money?

- (a) Fall in bank rate (b) Sale of securities in open market
(c) Increase in the cash reserve ratio (d) Increase in Repo rate

56. To curb inflation, the RBI should use, _____ policy.

- (a) Reducing the bank rate (b) Reducing the Repo rate
(c) Selling the government securities (d) Reducing the Reverse repo rate

57. During deflation, it is advisable to _____

- (a) Lower the bank rate and purchase of securities in the open market
(b) Increase the bank rate and purchase of securities in the open market
(c) Decrease in bank rate and sale of securities in the open market
(d) Increase in bank rate and sale of securities in the open market

58. To increase money supply in the economy, Central bank will:

- (a) Sell the government securities (b) Decrease the reserve requirements
(c) Increase the margin requirements (d) Increase reverse repo rate

59. “Central bank instructed the commercial banks to keep 30% of their deposits legally as reserves. Out of which , 15% of their deposits are to be kept with the central bank in the cash form.” here value of SLR is:

- (a) 5% (b) 10% (c) 15% (d) None of these

60. To soak the liquidity from the market, to control inflation:
 (a) Government securities should be purchased (b) Government securities should be sold
 (c) Repo rate should be decreased (d) Cash reserve ratio should be decreased
61. Commercial banks create money by way of:
 (a) Time deposits (b) Demand deposits (c) Treasury Bills (d) Bill of exchange
62. Balance Sheet of a Fictional Bank:

Balance Sheet of a Bank

Assets		Liabilities	
Reserves	₹100	Deposits	₹100
		Net Worth	₹0
Total	₹100	Total	₹100

Let our fictional bank start with deposits (liabilities) equal to ₹100. This could be because Ms Fernandes has deposited ₹100 in the bank. Let this bank deposit the same amount with RBI as reserves. Table 3.1 represents its balance sheet.

If we assume that there is no currency in circulation, then the total money supply in the economy will be:

- (a) Equal to ₹100. ($M_1 = \text{Currency} + \text{Deposits} = 0 + 100 = 100$)
 (b) Equal to ₹200. ($M_1 = \text{Currency} + \text{Deposits} - 100 + 100 = 200$)
 (c) Equal to ₹300. ($M_1 = \text{Currency} + \text{Deposits} = 200 + 100 = 300$)
 (d) None of above
63. Observe the following given table:

Balance Sheet of a Bank

Assets		Liabilities	
Reserves	₹100	Deposits (100+400)	₹500
Loans	₹400		
Total	₹500	Total	₹500

Reserves of ₹100 (20% of 500 = 100) can support the deposits of ₹500. In other words, our bank can give a loan of ₹400. Table 3.3 demonstrates its balance sheet. $M_1 = \text{Currency} + \text{Deposits} = 0 + 500 = 500$ Thus, money supply increases from ₹100 to ₹500. Given a CRR of 20%, the bank cannot give a loan beyond _____. Hence, the requirement of reserves acts as a limit to money creation.

- (a) ₹300 (b) ₹400 (c) ₹100 (d) None of above
64. What is the value of money multiplier when initial deposits are ₹500 crores and LRR is 25%.
 (a) 0.1 (b) 0.2 (c) 4 (d) 20
65. Which of the following is typical character of the barter system?
 (a) A common medium of exchange (b) Double coincidence of wants
 (c) A common unit of account (d) A standard for deferred payments
66. Money which is accepted as a medium of exchange because of the trust between the payer and the payee is called:
 (a) Full bodied money (b) Credit money (c) Fiat money (d) Fiduciary money
67. Money that is issued by the authority of the government is called:
 (a) Full bodied money (b) Credit money (c) Fiat money (d) Fiduciary money
68. Which of the following systems is followed by reserve bank of India for issuing currency?
 (a) Proportionate system (b) Simple deposit system
 (c) Minimum reserve system (d) Fixed fiduciary issue system
69. Component of money supply
 (a) Coins (b) Paper currency (c) Demand deposits (d) All of these

70. The maximum limit to accept payments in coins
 (a) ₹500 (b) ₹1000 (c) ₹250 (d) ₹100
71. Commercial banks create money by way of:
 (a) Fixed deposits (b) Demand deposits (c) Treasury bills (d) Bill of exchange
72. Which of the following is not concerned with banking organization?
 (a) Bank rate (b) Fiscal deficit (c) Credit creation (d) Cash reserve ratio
73. Central Bank is an open bank of the country that:
 (a) Controls the entire banking system of the country (b) Issues currency
 (c) Acts as a banker to the government (d) All of these
74. CRR in India is fixed by:
 (a) The commercial banks (b) The government
 (c) The RBI (d) The RBI and commercial banks
75. Reserve repo rate:
 (a) Generates interest income (b) is increased to control inflation
 (c) is not a policy rate (d) Both (a) and (b)
76. Which of the following is a commonly accepted definition of money?
 (a) Any good which is commonly used as a store of value
 (b) Any good which is exchanged for gold at a fixed rate
 (c) Any good which is acceptable to a bank
 (d) Any good which is commonly accepted as a medium of exchange
77. Money which is accepted as a medium of exchange because of the trust between the payer and the payee is called:
 (a) Full bodied money (b) Credit money (c) Fiat money (d) Fiduciary money
78. Full Bodied money is that money whose money value and commodity value are:
 (a) equal in the market (b) declared as equal by the government
 (c) different in the market (d) declared as equal by the RBI
79. Money that is issued by the authority of the government is called:
 (a) Full Bodied money (b) Credit money (c) Fiat money (d) Fiduciary money
80. When money value of money exceeds commodity value of money, it is called:
 (a) Full bodied money (b) Credit money (c) Fiat money (d) Fiduciary money
81. Money as a standard for deferred payment has led to the emergence of:
 (a) Commodity market (b) Financial market (c) Both (a) and (b) (d) None of these
82. Demand deposits include:
 (a) Chequeable deposits (b) Deposits which can be withdrawn on demand
 (c) Fixed deposits for a period of time (d) Both (a) and (b)
83. In India, there are four alternative measures of money supply: M_1 , M_2 , M_3 and M_4 , of these M_1 is equal to
 (a) Currency with people
 (b) Currency with people + Demand deposits
 (c) Currency with people + Demand deposits + Other deposits with the Reserve Bank
 (d) None of these
84. In India, coins are issued by:
 (a) State Bank of India (b) Reserve Bank of India
 (c) Ministry of Finance (d) Ministry of Urban Development

85. When reverse repo rate is reduced, it _____
 (a) Discourages the commercial banks to park their surplus funds with RBI
 (b) Encourages the commercial banks to park their surplus funds with RBI
 (c) Both (a) and (b)
 (d) Neither (a) nor (b)
86. Central Bank is an open bank of the country that:
 (a) Controls the entire banking system of the country (b) Issues currency
 (c) Acts as a banker to the government (d) All of these
87. Reserve repo rate :
 (a) Generates interest income (b) is increased to control inflation
 (c) is not a policy rate (d) Both (a) and (b)
88. The main aim of the commercial banks is:
 (a) Social welfare (b) To earn profits
 (c) To provide services to the people (d) None of these
89. Maximum credit that the commercial banks can legally create depends on their:
 (a) Gold reserves (b) Cash reserves with the RBI
 (c) Statutory liquidity ratio (d) Term deposits
90. The percentage of demand deposits which the commercial banks are legally required to maintain as their liquid assets is called:
 (a) CRR (b) repo rate (c) SLR (d) reverse repo rate
91. SLR requires the commercial banks to build their liquid assets by way of:
 (a) reserves of cash (b) reserves of gold
 (c) reserves of unencumbered securities (d) all of these
92. If inflation is to be combated, the RBI:
 (a) raises SLR and lowers CRR (b) lowers SLR and raises CRR
 (c) raises both CRR as well as SLR (d) none of these
93. If recession is to be combated:
 (a) bank rate needs to be lowered
 (b) CRR needs to be lowered
 (c) both (a) and (b)
 (d) repo rate needs to be lowered and CRR needs to be raised
94. Find the odd one out among the following:
 (a) Reserve Bank of India (b) Bank of England
 (c) IDBI Bank (d) Federal Reserve Bank of the USA
95. What is the value of money multiplier when initial deposits are ₹500 crores and LRR is 10%?
 (a) 0.1 (b) 0.2 (c) 10 (d) 20
96. Commercial banks create money by way of:
 (a) Time deposits (b) Demand deposits (c) Treasury Bills (d) Bill of exchange
97. Quantitative credit control deals with:
 (a) Quantity of money supply (b) increase in money supply
 (c) decrease in money supply (d) no change in money supply
98. When the central act as a banker to the government, what does it do?
 (a) It carries out government transactions (b) It advises on monetary and financial matters
 (c) It keeps accounts of the government
 (d) It carries out government transactions, advises on monetary and financial matters and keeps accounts of the government

99. _____ are called legal tenders.
 (a) Demand deposits (b) Time deposits (c) Inter-bank deposits (d) Currency notes and coins
100. Which of the following is not included in money supply?
 (a) High powered money (b) Bank money (c) Time deposits (d) Inter-bank deposits
101. Supply of money refers to quantity of money _____.
 (a) as on 31st March (b) During any specified period of time
 (c) as on any point of time (d) During a fiscal year
102. Demand deposits includes _____.
 (a) Saving account deposits and fixed deposits (b) Saving account and current account deposits
 (c) Current account deposits and fixed deposits (d) All types of deposits
103. Which among the following is the near money?
 (a) Bonds (b) Insurance policy (c) Securities (d) All of these
104. Which of the following is the function of a commercial bank?
 (a) Accepting deposits (b) Credit creation (c) Agency function (d) All of these
105. Which is the most liquid measure of the money supply?
 (a) M_4 (b) M_3 (c) M_2 (d) M_1
106. Indian Monetary System is based on _____.
 (a) Paper Standard (b) Metallic Standard
 (c) Gold Standard (d) Credit Money Standard
107. Reserve Bank of India was established in :
 (a) 1947 (b) 1935 (c) 1937 (d) 1945
108. The 14 big scheduled commercial banks in India were nationalised in:
 (a) 1949 (b) 1955 (c) 1969 (d) 2000
109. From the set of facts given in column I and corresponding relevant fact given in column II, Which of the following option is showing correct pairing:
- | Column 1 | Column 2 |
|----------------------|--|
| 1. Repo Rate | (i) The interest rate that the RBI charges when commercial banks borrow money from it is called the repo rate. |
| 2. Reverse repo rate | (ii) Lending rate or interest rate is the amount charged by lenders for a certain period as a percentage of the amount lent or deposited. |
| 3. Bank rate | (iii) The rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country. |
| 4. Lending rate | (iv) The rate of interest which a central bank charges on its loans and advances to a commercial bank. |
- (a) 1-(i), 2-(iii), 3-(iv), 4-(ii) (b) 1-(ii), 2-(i), 3-(iii), 4-(iv)
 (c) 1-(iv), 2-(iii), 3-(ii), 4-(i) (d) None of above
110. From the set of facts given in column I and corresponding relevant fact given in column II, Which of the following option is showing correct pairing:
- | Column 1 | Column 2 |
|------------------------|--|
| 1. Money supply | (i) Cash reserve ratio + statutory liquidity ratio |
| 2. M_1 | (ii) Initial deposits x money multiplier |
| 3. Legal reserve ratio | (iii) Stock concept |
| 4. Final deposits | (iv) Cash+Demand Deposits+Other Deposits |
- (a) 1-(i), 2-(iii), 3-(iv), 4-(ii) (b) 1-(iii), 2-(iv), 3-(i), 4-(ii)
 (c) 1-(iv), 2-(iii), 3-(ii), 4-(i) (d) None of above

INPUT TEXT BASED MCQs

Read the following passage and write answers of Q111–Q112

“The Reserve Bank of India raised inflation forecasts on the back of higher oil and other raw materials while it maintained the growth forecast at 9.5% for FY22 despite anemic investment demand. Governor Shaktikanta Das said inflation measured by the consumer price index (CPI) might remain close to the upper tolerance band of 6% up to September expecting easing of pressure thereafter on kharif harvest arrivals. [RBI has a fixed inflation rate target between 2%-6%.] The central bank projected CPI at 5.7% for FY22 compared to its earlier projection of 5.1%. “The supply-side drivers could be transitory while demand-pull pressures remain inert, given the slack in the economy. A pre-emptive monetary policy response at this stage may kill the nascent and hesitant recovery that is trying to secure a foothold in extremely difficult conditions,” Das said. Crude oil prices are volatile with implications for imported cost pressures on inflation, RBI said. “The combination of elevated prices of industrial raw materials, high pump prices of petrol and diesel with their second-round effects, and logistics costs continue to impinge adversely on cost conditions for manufacturing and services, although weak demand conditions are tempering the pass-through to output prices and core inflation

111. On the basis of above given information, Why does RBI fix the inflation target?
- (a) To make growth process fast (b) To make coordination with government
(c) To manage exchange rate (d) To stabilize economy
112. LRR and money creation has
- (a) positive relation (b) negative relation (c) No relation (d) Both (a) and (b)

Read the following passage and write answers of Q113–Q116

India's total Money Supply (M3) stood at ₹17804885 crores as on October 23rd 2020, recording a rise of 11.60% over the same time last year. Currency with the public stood at ₹2619612, up 21.2% over the year.

Demand deposits with banks were up 10% at ₹1625734 crores. Time deposits with banks were also up 10% at ₹13518822 crores. The bank credit to commercial sector rose 5.2% on year to ₹10999604 crores.

Money supply in the economy has increased over the months. We can look at money supply from the component side and the sources side. One of the ways of measuring money supply is M3, which is a sum of the currency with the public, the demand deposits with the banking system, which include current deposits and savings deposits, the time deposits with the banking system, such as fixed deposits, recurring deposits, and other deposits of RBI. The currency with the public has grown by more than 21% since June and so have bank deposits. This has led to M3 growing by over 12% since June.

Heightened uncertainty in India caused by the corona virus pandemic has led to a surge in currency in circulation as people hoard cash or park money in accessible deposits to safeguard themselves against salary cuts or job losses.

Foreign money continuously keeps coming into India, leading to an increase in demand for the rupee against the dollar. To prevent the rupee from appreciating, RBI sold rupees and bought dollar, adding to the increase in M3.

113. Money supply in the economy has increased over 5 months since June due to:
- (a) Public holding cash for transaction and precautionary
(b) Inflow of foreign exchange
(c) Uncertainty caused by corona virus pandemic
(d) All of these
114. Sum of currency with public, demand deposits and time deposits with banks is _____ measure of money supply.
- (a) M_1 (b) M_2 (c) M_3 (d) None of the above
115. _____ and _____ are the components of money supply.
- (a) Currency held with public, fixed deposits (b) Currency held with public, demand deposits
(c) Coins, paper currency (d) Goods, services

116. Money supply refers to the total _____ of money in circulation in the economy which can be directly used for transactions.

- (a) Stock (b) Flow (c) Depreciation (d) Value

Read the following passage and write answers of Q117–Q120

Demonetisation was a new initiative taken by the Government of India in November 2016 to tackle the problem of corruption, black money, terrorism and circulation of fake currency in the economy. Old currency notes of ₹500, and ₹1000 were no longer legal tender. New currency notes in the denomination of ₹500 and ₹2000 were launched. The public were advised to deposit old currency notes in their bank account till 31 December 2016 without any declaration and upto 31 March 2017 with the RBI with declaration:

Further to avoid a complete breakdown and cash crunch, notes government had allowed exchange of ₹4000 old currency the by new currency per person and per day. Further till 12 December 2016, old currency notes were acceptable as legal tender at petrol pumps, government hospitals and for payment of government dues, like taxes, power bills, etc.

This move received both appreciation and criticism. There were long queues outside banks and ATM booths. The shortage of currency in circulation had an adverse impact on the economic activities. However, things improved with time and normalcy returned. This move has had positive impact also. It improved tax compliance as a large number of people were brought in the tax ambit. The savings of an individual were channelized into the formal financial system. As a result, banks have more resources at their disposal which can be used to provide more loans at lower interest rates. It is a demonstration of State's decision to put a curb on black money, showing that tax evasion will no longer be tolerated. Tax evasion will result in financial penalty and social condemnation. Tax compliance will improve and corruption will decrease. Demonetisation could also help tax administration in another way, by shifting transactions out of the cash economy into the formal payment system. Households and firms have begun to shift from cash to electronic payment technologies.

117. Demonetisation announced for the purpose of

- (a) To tackle the problem of corruption (b) To tackle the problem of Black money
(c) To tackle the problem of terrorism (d) All of the above

118. Which currency notes have been demonetized?

- (a) ₹500 (b) ₹1000 (c) both (a) and (b) (d) none of the above

119. Positive impacts of demonetisation

- (a) large number of people was brought in the tax ambit
(b) savings are channelized into the formal financial system
(c) Both (a) and (b)
(d) None of the above

120. Criticism on demonetisation

- (a) Long queues outside banks and ATM centers (b) Shortage of the currency in circulation
(c) Both (a) and (b) (d) None of the above

Read the following passage and write answers of Q121–Q124

The Reserve Bank of India unexpectedly cut its key deposit rate on Friday, for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the corona virus lockdown.

This week, Prime Minister Narendra Modi extended until May 3 a lockdown of the population of 1.3 billion as India's tally of infections exceeded 10,000, despite the three-week shutdown ordered from March 24.

The RBI cut its reverse repo rate by 25 basis points (bps) to 3.75% with immediate effect, Governor Shaktikanta Das told a video conference. The rate had already been cut by 90 bps on March 27.

“The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI,” he added.

“In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate reverse repo rate.”

121. The reserve bank of India lowered reverse repo rate to discourage banks from parking idle funds with _____
(a) RBI (b) Commercial banks (c) Cooperative banks (d) NABARD
122. RBI's measure of reduction in reverse repo rate is done to enable commercial banks _____
(a) To use the surplus funds for investment (b) To grant loans for productive purposes
(c) To widen economic and financial landscape (d) All of these
123. Reverse repo rate is _____ to correct excess demand.
(a) Decreased (b) increased (c) Constant (d) Flexible
124. When reverse repo rate is reduced, it _____
(a) Discourage the commercial banks to park their surplus funds with RBI
(b) Encourage the commercial banks to park their surplus funds with RBI
(c) Both (a) and (b)
(d) Neither (a) or (b)

Read the following passage and write answers of Q125–Q127

Money is the commonly accepted medium of exchange. In an economy which consists of only one individual there cannot be any exchange of commodities and hence there is no role for money. Even if there is more than one individual but these individuals do not take part in market transactions, example: family living on an isolated island, money has no function for them. However, as soon as there is more than one economic agent who engage themselves in transactions through the market, money becomes an important instrument for facilitating these exchanges. Economic exchanges without the mediation of money are referred to as barter exchanges. However, they presume the rather improbable double coincidence of wants. Consider, for example, an individual who has a surplus of rice which she wishes to exchange for clothing. If she is not lucky enough she may not be able to find another person who has the diametrically opposite demand for rice with a surplus of clothing to offer in exchange.

125. What is the important work of money?
(a) Store of Value (b) Medium of exchange
(c) Transfer of Value (d) Standard of deferred Payments
126. What is Barter System?
(a) Exchange of commodity for money (b) Exchange of commodity for commodity
(c) Transfer of Value (d) None of the above
127. Who satisfy double coincidence of wants?
(a) Exchange of commodity for money (b) Exchange of commodity for commodity
(c) Transfer of Value (d) None of the above

Read the following passage and write answers of Q128–Q130

The demand for money tells us what makes people desire a certain amount of money. Since money is required to conduct transactions, the value of transactions will determine the money people will want to keep: the larger is the quantum of transactions to be made, the larger is the quantity of money demanded. Since the quantum of transactions to be made depends on income, it should be clear that a rise in income will lead to rise in demand for money. Also, when people keep their savings in the form of money rather than putting it in a bank which gives them interest, how much money people keep also depends on rate of interest. Specifically, when interest rates go up, people become less interested in holding money since holding money amounts to holding less of interest-earning deposits, and thus less interest received. Therefore, at higher interest rates, money demanded comes down.

128. Money enables people to save. Which function of money does this describe?
 (a) Store of value (b) Unit of account
 (c) Medium of exchange (d) All of the above
129. Money is most liquid of all assets because?
 (a) It has portability. (b) It can be easily stored.
 (c) It is readily convertible into other assets. (d) It is generally acceptable.
130. Demand of money depends on
 (a) Saving (b) Income (c) Investment (d) All of these

ANSWERS

Multiple Choice Questions

- | | | | | | | | | | |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 1. (b) | 2. (c) | 3. (d) | 4. (a) | 5. (b) | 6. (b) | 7. (a) | 8. (b) | 9. (d) | 10. (b) |
| 11. (d) | 12. (d) | 13. (c) | 14. (a) | 15. (a) | 16. (d) | 17. (d) | 18. (b) | 19. (a) | 20. (d) |
| 21. (b) | 22. (c) | 23. (b) | 24. (a) | 25. (a) | 26. (a) | 27. (d) | 28. (b) | 29. (a) | 30. (a) |
| 31. (c) | 32. (c) | 33. (d) | 34. (c) | 35. (c) | 36. (b) | 37. (b) | 38. (b) | 39. (d) | 40. (c) |
| 41. (b) | 42. (b) | 43. (c) | 44. (b) | 45. (c) | 46. (c) | 47. (c) | 48. (c) | 49. (a) | 50. (b) |
| 51. (d) | 52. (a) | 53. (c) | 54. (b) | 55. (a) | 56. (c) | 57. (a) | 58. (b) | 59. (c) | 60. (b) |
| 61. (b) | 62. (a) | 63. (b) | 64. (c) | 65. (b) | 66. (d) | 67. (c) | 68. (c) | 69. (d) | 70. (d) |
| 71. (b) | 72. (b) | 73. (d) | 74. (c) | 75. (d) | 76. (d) | 77. (d) | 78. (a) | 79. (c) | 80. (b) |
| 81. (b) | 82. (d) | 83. (c) | 84. (c) | 85. (a) | 86. (d) | 87. (d) | 88. (b) | 89. (c) | 90. (c) |
| 91. (a) | 92. (c) | 93. (c) | 94. (c) | 95. (c) | 96. (a) | 97. (a) | 98. (d) | 99. (d) | 100. (d) |
| 101. (c) | 102. (b) | 103. (d) | 104. (d) | 105. (d) | 106. (c) | 107. (b) | 108. (c) | 109. (a) | 110. (b) |

Input Text Based MCQs

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|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 111. (d) | 112. (b) | 113. (d) | 114. (c) | 115. (b) | 116. (a) | 117. (d) | 118. (c) | 119. (c) | 120. (c) |
| 121. (a) | 122. (d) | 123. (b) | 124. (a) | 125. (b) | 126. (b) | 127. (a) | 128. (a) | 129. (b) | 130. (d) |

