# **Money and Banking**

#### Choose the correct alternative.

# Question 1.

\_\_\_\_\_ is the primary function of money.

- (a) Transfer of value
- (b) Medium of exchange
- (c) Standard of deferred payment
- (d) Store of value

#### **▼** Answer

Answer: (b) Medium of exchange

#### Question 2.

Initial deposits made by the people from their own resources are called

- (a) time deposits
- (b) secondary deposits
- (c) primary deposits
- (d) term deposits

#### ▼ Answer

Answer: (c) primary deposits

# Question 3.

The monetary policy generally targets to ensure \_\_\_\_\_

- (a) Price stability in the economy
- (b) employment generation in the country
- (c) stable foreign relations
- (d) greater tax collections for the government

### **▼** Answer

Answer: (a) Price stability in the economy

## Question 4.

In order to encourage investment in the economy, the Central Bank may

- (a) Reduce Cash Reserve Ratio
- (b) Increase Cash Reserve Ratio
- (c) Sell Government securities in the open market
- (d) Increase Bank Rate

# **▼** Answer

Answer: (a) Reduce Cash Reserve Ratio





# Question 5.

Banks are able to create credit many times more than initial deposits through

- (a) secondary deposits
- (b) providing overdraft facilities
- (c) accepting deposits
- (d) advancing loans

# **▼** Answer

Answer: (a) secondary deposits

# Question 6.

The creation is called credit creation.

- (a) time deposits
- (b) primary deposits
- (c) secondary deposits
- (d) None of these

#### ▼ Answer

Answer: (c) secondary deposits

# Question 7.

The ratio of total deposit that a commercial bank has to keep with the Reserve Bank of India is called

- (a) Statutory Liquidity Ratio
- (b) Deposit Ratio
- (c) Cash Reserve Ratio
- (d) Legal Reserve Ratio

# ▼ Answer

Answer: (c) Cash Reserve Ratio

### Question 8.

Credit creation by the commercial bank is determined by

- (a) Cash Reserve Ratio
- (b) Statutory Liquidity Ratio
- (c) Initial Deposits
- (d) all of the above

# **▼** Answer

Answer: (d) all of the above

#### Question 9.

\_\_\_\_\_ is the rate of interest charged by the central bank on loans given to the commercial bank.





(a) Bank Rate
(b) Cash Reserve Ratio (c) Statutory Liquidity Ratio
(d) Reverse Repo Rate
▼ Answer
Answer: (a) Bank Rate
Question 10.
is the main function of Central Bank.
<ul><li>(a) Notes issue</li><li>(b) Credit creation</li></ul>
(c) Accepting deposits from the public
(d) Advancing loans to public
▼ Answer
Answer: (a) Notes issue
Fill in the blanks with the correct word.
Question 11.
The exchange of goods for goods is called exchange.
▼ Answer
Answer: barter
Question 12.
Cheque, draft, etc. are money.
▼ Answer
Answer: credit
Question 13.
Bond, insurance, securities, etc. are examples of money.
▼ Answer
Answer: near
Question 14.
Indian monetary system is based on standard.
▼ Answer



Answer: paper currency
Question 15. Supply of money is a concept.
▼ Answer
Answer: stock
Question 16 is the Central Bank of India.
▼ Answer
Answer: RBI
Question 17.  Commercial banks are an important source of in the economy.
▼ Answer
Answer: money supply
Question 18.  A bank is a financial institution which accepts deposits from the people and gives loans for the purpose of consumption and investment.    Answer
Answer: commercial
Question 19. Value of money multiplier with an increase in Cash Reserve Ratio.
▼ Answer
Answer: decreases
Question 20. Quantitative instruments are also known as instruments.
▼ Answer
Answer: general
Question 21.  Qualitative instruments are also known as instruments.



▼ Answer
Answer: selective
Question 22. The design and control of India's monetary policy is the main responsibility of the
▼ Answer
Answer: central bank
Question 23. Two essential functions of a bank are accepting deposit and
▼ Answer
Answer: advancing loan
Question 24 means buying and selling of government securities in the market.
▼ Answer
Answer: Open market operations
Question 25. Bank rate is the instrument of Central Bank.
▼ Answer
Answer: quantitative
State whether the following statements are true or false. Give reasons.
Question 26.  Money as a medium of exchange solves the problem of lack of double coincidence of want.
▼ Answer
Answer: True Goods can be sold for money to whoever wants it and from whoever wants to sell it.
Question 27. Legal tender money has a legal sanction behind it by the government.
▼ Answer

Answer: True

No one can refuse to accept it as non-acceptance is an offense.

Question 28.

M1 includes saving deposits of post office savings banks.

#### ▼ Answer

Answer: False

Saving deposits with the post office are a part of M2.

Question 29.

The money supply is a flow variable.

### **▼** Answer

Answer: False

The money supply is a stock variable as it is measured at a particular point in time.

Question 30.

Commercial Banks play no role in the stock of money supply in the economy.

#### ▼ Answer

Answer: False

Commercial banks add to the stock of money supply by creating credit.

Question 31.

Credit money is money received as credit from banks.

#### **▼** Answer

Answer: False

Credit money is money whose face value is more than its intrinsic (commodity) value.

Question 32.

Commercial banks do not create money.

#### ▼ Answer

Answer: False

Commercial banks add to the money supply by creating demand deposits.

Question 33.

Bank rate is a qualitative method of credit control.

#### ▼ Answer



Answer: False

Bank rate is a quantitative method of credit control as it aims at influencing the volume of

Question 34.

There is an inverse relation between LRR and the size of the money multiplier.

#### **▼** Answer

Answer: True

Higher the LRR, the lower is the money multiplier and vice-versa.

# Match the alternatives given in Column II with respective terms in Column I.

# Question 35.

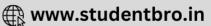
Column I	Column II
	(a) Open Market Operations
(ii) M1 + Time deposits with the bank	(b) Advancing Loans
(iii) Quantitative Instrument of monetary policy	(c) Lender of the Last Resort
(iv) Qualitative Instrument of monetary policy	(d) M2
(v) Function of commercial bank	(e) M3
(vi) Function of the central bank	(f) Margin Requirement

# **▼** Answer

#### Answer:

Column I	Column II
(i) M1 + Deposit with post office saving bank account	(d) M2
(ii) M1 + Time deposits with bank	(e) M3
	(a) Open Market Operations
11.	(f) Margin Requirement
(v) Function of commercial bank	(b) Advancing Loans





(vi) Function of the central bank

(c) Lender of the Last Resort

