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.
(a) Notes issue
(b) Credit creation
(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 credit.

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
(i) M1 + Deposit with post office saving bank account	(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
(iii) Quantitative Instrument of monetary policy	(a) Open Market Operations
(iv) Qualitative Instrument of monetary policy	(f) Margin Requirement
(v) Function of commercial bank	(b) Advancing Loans

(vi) Function of the central bank	(c) Lender of the Last Resort