Supply of Money - Reason-Based (Comp. of Sub)

Q.1. Demand deposits with commercial banks are a part of money supply.

Ans. True. Demand deposits with the commercial banks are a part of M_1 measure of money supply. These are chequeable deposits and therefore, serve like notes and coins.

Q.2. Money supply in the economy include only notes and coins issued by the central bank.

Ans. False. Money supply in the economy includes notes and coins with the people as well as demand deposits with the banks.

Q.3. Money can be withdrawn as and when needed by the depositors in case of term deposits.

Ans. False. Depositors cannot withdraw money as and when needed in case of term deposits because term deposits are always for a specific period of time. These are not chequeable deposits.

Q.4. Stock of money with the government is a part of money supply.

Ans. False. Stock of money with the suppliers/creators of money is not to be treated a part of money supply in the country. We know, the government is the supplier of money.

Q.5. Commercial banks are the principal suppliers of money in India.

Ans. False. RBI (Reserve Bank of India) is the principal supplier of money in India.

Q.6. Gross demand deposits are not a part of money supply while net deposits are.

Ans. True. Gross demand deposits include inter-banking claims whereas net demand deposits do not include inter-banking claims. Inter-banking claims are not a part of demand deposits of the people. Hence, only net demand deposits are taken as a part of money supply, not the gross deposits.

Q.7. Term deposits are near money, and therefore should be treated as a component of M_1 supply of money.

Ans. False. M_1 supply of money includes only most liquid components of money supply. There are those components (like currency with the people) which can be used for purpose of sale and purchase of goods any time. Term deposits are not so liquid and therefore, not included in M_1 supply of money.