Central Bank - Reason-Based (Comp. of Sub)

Q.1. The central bank is the banker’s bank.

Ans. True. The central bank is an apex bank of all banks in the country. Because, all banks are to work according to guidelines and directives of the central bank.

Q.2. The central bank is the currency authority.

Ans. True. The central bank is the sole-issuing authority in the country. It has the exclusive right of note-issuing.

Q.3. The central bank offers loans to the government.

Ans. True. The central bank offers loans to the government against government securities or treasury bills. It is a bank to the government of the country.

Q.4. Bank rate is the rate of interest charged by the bank on commodity loans.

Ans. False. Bank rate is that rate at which central bank gives loans to the commercial banks.

Q.5. Open market operations are meant to increase or decrease the supply of money in the economy.

Ans. True. In order to increase or decrease the money supply in the economy, central bank purchases or sells securities in the open market. Supply of money increases when securities are purchased and it decreases when securities are sold by the RBI.

Q.6. Reverse repo rate is the rate at which the central bank offers short period loans to the commercial banks.

Ans. False. Reverse repo rate is the rate at which commercial banks are allowed to park their surplus funds with the RBI.

Q.7. The goal of central bank is to maximise profit.

Ans. False. The goal of central bank is to achieve stability and growth of the economy.

Q.8. Qualitative instruments control the flow of credit to select sectors of the economy.

Ans. True. Qualitative instruments focus on select sectors of the economy. These instruments control the flow of credit to select sectors not by varying policy rates and ratios, but by issuing advisories to the commercial banks.

Q.9. If reverse repo rate is 4%, then repo rate will be lower than this.

Ans. False. If reverse repo rate is 4%, then repo rate will be higher than this. Because, the standard practice is to keep ‘reverse repo rate’ lower than the ‘repo rate’. It is like lending rate being higher than the borrowing rate by the bank.

Q.10. A fall in SLR increases money supply in the economy.

Ans. True. Money supply in the economy increases when SLR decreases, because fall in SLR enhances capacity of the commercial banks to create credit.

Q.11. In order to curb inflation, repo rate is decreased.

Ans. False. In order to curb inflation, repo rate is increased. Increase in repo rate causes increase in market interest rate (rate of interest charged by the commercial banks from the general public). Accordingly, the cost of credit (also called the cost of capital) increases. This reduces the flow of credit, as desired to curb inflation.

Q.12. To reduce money supply in the economy, securities are purchased by the central bank of the country.

Ans. False. To reduce money supply in the economy, securities are sold by the central bank. Sale of securities soaks purchasing power from the money market. When liquidity is soaked/reduced, cash reserves of the commercial banks are squeezed. Implying a check on their credit creation capacity, and a cut in money supply.