Chapterwise Question

MONEY AND BANKING

Class 12 - Economics

Time Allowed: 3 hours **Maximum Marks: 80**

1. Which one of the following is not a primary function of money? **[1]**

   a) Standard of deferred payments
   b) Measure of value
   c) Medium of exchange
   d) None of these

2. The narrow definition of money is not based on: **[1]**

   a) Store of the value function
   b) The liquid form of money
   c) None of these
   d) The medium of payment function

3. Which of the following is not related to credit-creation process? **[1]**

   a) Constant LRR
   b) Money Multiplier = Reciprocal of LRR
   c) Cash as essential feature
   d) Uni Bank Model

4. Which is the agency function of Commercial Banks? **[1]**

   a) Advancing Loans
   b) Locker Facility
   c) Accepting Deposits
   d) Act as Trustee

5. Given CRR = 4% and SLR = 16%, the value of money multiplier is: **[1]**

   a) 25
   b) 5
   c) 8.33
   d) 6.25

6. **Assertion (A):** Money supply does not include money held by Government and Commercial Banks. **[1]**
   Reason (R): Government and Commercial Banks are themselves the supplier of money.

   a) Both A and R are true and R is the correct explanation of A.
   b) Both A and R are true but R is not the correct explanation of A.
   c) A is true but R is false.
   d) A is false but R is true.

7. **Assertion (A):** Rationing of credit is introduced when the flow of credit is to be checked particularly for speculative activities in the economy. **[1]**
   Reason (R): The commercial banks exceed the quota limits while granting the loan.

   a) Both A and R are true and R is the correct explanation of A.
   b) Both A and R are true but R is not the correct explanation of A.
   c) A is true but R is false.
   d) A is false but R is true.

8. **Assertion (A):** It is convenient to store value in terms of money. **[1]**
   Reason (R): The value of money does not remain relatively stable compared to other commodities.

   a) Both A and R are true and R is the correct explanation of A.
   b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

9. In a hypothetical economy, Mr. Neeraj has deposited ₹100 in the bank. If it is assumed that there is no other currency circulation in the economy, then the total money supply in the economy will be **[1]**

a) 120

b) 0

c) not defined

d) 100

10. Read the following statements carefully and choose the correct alternatives given below: **[1]**

Statement 1 – Central bank lends money to borrowers at a very low interest.

Statement 2 – Ministry of finance circulates all mint and one rupee note in India.

a) Statement 2 is true and Statement 1 is false

b) Both the statements are false.

c) Statement 1 is true and Statement 2 is false

d) Both the statements are true.

11. Buying and selling of government securities by the central bank from the public and banks is called ________. **[1]**

a) margin requirement

b) repo rate

c) reverse repo rate

d) open market operations

12. To reduce credit availability in the economy, the Central Bank may: **[1]**

a) reduce reserve ratio

b) buy securities in the open market

c) sell securities in the open market

d) reduce repo rate

13. To curb inflation, the RBI should not be **[1]**

a) raising the repo rate

b) none of these

c) raising the bank rate

d) raising the reverse repo rate

14. **Assertion (A):** The cost of credit is also called the cost of capital changes in the market. **[1]**

Reason (R): The increase in bank rate is often followed by an increase in the market rate of interest.

a) Both A and R are true and R is the correct explanation of A.

b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

15. **Assertion (A):** The Reserve bank of India had in march 2020, offered a three-month moratorium on loans enabling borrowers to defer repayments on EMI and other loans. **[1]**

Reason (R): The loan moratorium was aimed at providing borrowers relief aimed at the economic impact of the covid-19 pandemic.

a) Both A and R are true and R is the correct explanation of A.

b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false.

d) A is false but R is true.

16. **Assertion (A):** The central bank tries to persuade the commercial bank to follow its directives of monetary policy. **[1]**

Reason (R): It can pressurize them to follow its policy directives.

a) Both A and R are true and R is the correct explanation of A.

b) Both A and R are true but R is not the correct explanation of A.

c) A is true but R is false. d) A is false but R is true.

17. **Assertion (A):** Central Bank is the **Lender of last Resort**. **[1]**

Reason (R): It is ready to lend to banks, when bank faced severe crises. If central bank refuses, there is no option for the banks but to shut down.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.
d) A is false but R is true.

18. **Assertion (A):** Commercial banks act as a last resort to banking institutions. **[1]**

Reason (R): It means that if a commercial bank fails to get financial accommodation from anywhere, it approaches the central bank as a last resort.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.
d) A is false but R is true.

19. **Assertion (A):** Centralised cash reserves enable the RBI to offer financial help to commercial banks during emergencies. **[1]**

Reason (R): Banks get financial accommodation (or financial help) in times of emergency by the RBI.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.
d) A is false but R is true.

20. **Assertion (A):** The central bank is an apex bank that controls the entire banking system of a country. **[1]**

Reason (R): It is not the sole agency of note-issuing and controls the supply of money in the economy.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not the correct explanation of A.
c) A is true but R is false.
d) A is false but R is true.

21. Explain the problem of common measure of value in relation to barter. How does money solve the problem of a common measure of value? **[3]**
22. What is the difference between money and high power money? **[3]**
23. How is quantitative credit control different from qualitative credit control? **[3]**
24. State any three points of distinction between Central Bank and Commercial Banks. **[3]**
25. Distinguish between demand deposit and time (term) deposit. **[4]**
26. What role does credit multiplier play in determining the credit creation capacity of the banking system? Use a numerical illustration to explain. **[4]**
27. Distinguish between SLR and CRR. Explain the Role of SLR and CRR in credit control. **[4]**
28. To boost the falling demand in the economy, the Reserve Bank of India recently reduced the Repo rate. Elaborate the rationale behind the steps taken by the Central Bank. **[4]**
29. Explain 'currency authority' and 'controller of credit' functions of central bank. **[4]**
30. What are open market operations? What is their effect on availability of credit? **[4]**
31. How do changes in Bank Rate affect the money supply in an economy? Explain. **[6]**
32. Distinguish between central bank and commercial bank. **[6]**
33. How does the Central Bank control credit creation in the economy through open market operation and bank rate? **[6]**

Explain.

34. Read the text and answer the questions **[6]**

India’s total Money Supply (M3) stood at Rs 18907383 crore as on April 9th 2020, recording a rise of 11.3% over the same time last year. Currency with the public stood at Rs 2787941 crore, up 16.7% over the year. Demand deposits with banks were up 17% at Rs 1867606 crore.

Time deposits with banks were also up 9.6% at Rs 14205545 crore. The bank credit to commercial sector edged up 5.1% on year to Rs 11552069 crores. However, this indicates moderation from 7.2% at the same time last year.

i) How does increase in deposits with commercial banks will affect credit creation process?

ii) What is indicated by increasing deposits?