STUDY mate
helps excel in boards

Chapter End Test

(2019-20)

Date : __________	Economics	Class
Duration: 45 Min. Max. Marks: 25	Topic : Money & Banking	XII

Section – A

1. What is the value of money multiplier when initial deposits are ₹500 crores and LRR is 10%?

(a) 0.1 (b) 0.2 (c) 10 (d) 20 **[1]**

2. ____________ refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets. **[1]**

(a) Cash Reserve Ratio (b) Statutory Liquidity Ratio

(c) Bank Rate (d) Repo Rate

3. Which of the following statement is correct. **[1]**

(a) M_1 = C + Time deposits (b) $M_2 = M_1$ + Time deposits

(c) M_1 = C + DD + OD (d) M_2 = C + DD + OD

4. Which of the following will increase the money supply? **[1]**

(a) Rise in repo rate (b) Purchase of securities in open market

(c) Increase in cash reserve ratio (d) All of these

5. SLR requires the commercial banks to build their liquid assets by way of **[1]**

(a) Reserves of cash (b) Reserves of gold

(c) Reserves of unencumbered securities (d) All of these

6. If recession is to be combated. **[1]**

(a) Bank rate needs to be lowered (b) CRR needs to be lowered

(c) Both (a) and (b)

(d) Repo rate needs to be lowered and CRR needs to be raised

7. If the total deposits created by commercial banks is ₹10,000 crores and reserve requirements is 40% than the amount of initial deposits will be **[1]**

(a) ₹2000 cr (b) ₹3000 crores (c) ₹4000 crores (d) ₹14000 crores

8. Maximum credit that the commercial banks can legally create in indicated by **[1]**

(a) $\frac{1}{\text{SLR}} \times \text{Total deposits}$ (b) $\frac{1}{\text{CRR}} \times \frac{1}{\text{Cash Reserve with RBI}}$

(c) $\frac{1}{\text{CRR}} \times \text{Total deposits}$ (d) $\frac{1}{\text{CRR}} \times \text{Cash Reserve with the RBI}$

9. Central Bank can **[1]**

(a) give loans to public directly.

(b) give loans to government only.

(c) give loans to commercial bank only.

(d) give loans to both government and commercial bank.

10. Which of the following does not come under quantitative measures of monetary policy **[1]**

(a) Open market operations (b) Cash reserve ratio

(c) Moral suasion (d) Repo rate

11. Increase is CRR works an signal to the commercial banks: **[1]**

(a) To maintain healthy reserves as vault cash

(b) To be liberal is offering loans

(c) To follow cheap money policy

(d) None of these

12. With an increase in margin requirement availability of credit in the economy **[1]**

(a) Increases (b) Decreases (c) Unchanged (d) None of these

13. Reverse Repo Rate: **[1]**

(a) Generates interest income (b) Is increased to curb inflation

(c) Is not a policy rate (d) Both (a) and (b)

14. What will be the effect of increase in the "Repo Rate" on the money supply **[1]**

(a) Money supply will increase

(b) Money supply will decrease

(c) Money supply will remain save

(d) Money supply will initially increase and then it will decrease

15. The one rupee note and coins are issued by **[1]**

(a) RBI (Central Bank) (b) Central Government

(c) Ministry of finance (d) Central Government

Section – B

16. Define money supply. **[?]**

17. Explain the process of credit creation by commercial banks. **[3]**

OR

How can "**Jan-Dhan Yojana**" be used as an instrument to increase supply of money by the commercial banks?

18. Explain:

(a) Banker to the Government

(b) Lender of last resort function of the central bank. **[4]**

19. Explain how the following instrument control the money supply is the economy. **[6]**

(a) Open market operation

(b) Reserve Repo Rate

(c) Margin Requirements

❖❖❖❖❖

Chapter End Test

(2019-20)

Date : ________	Economics	Class
Duration: 45 Min. Max. Marks: 25	Topic : Money & Banking	XII

1.	(c)	**2.**	(b)	**3.**	(c)	**4.**	(b)
5.	(d)	**6.**	(c)	**7.**	(c)	**8.**	(d)
9.	(d)	**10.**	(c)	**11.**	(a)	**12.**	(b)
13.	(d)	**14.**	(b)	**15.**	(c)		

16. The supply of money means the total stock of all the forms of money (paper money, coins and demand deposits of banks) which are held by the public at any particular points of time.

17. The money (or deposit or credit) creation by the commercial banks is determined by the amount of initial deposit and the legal reserve ratio (LRR). Suppose the amount of initial deposit is ₹10,000 and LRR is 0.20. The banks will keep 20% i.e. ₹2,000 as reserve and lend the remaining ₹8,000. Those who borrow, will spend this money. It is assumed that ₹8, 000 comes back to the banks. This raises total deposits to ₹18,000. Banks again keep 20% of ₹8,000, i.e. ₹1.600 as reserve and lend ₹6,400. This further raises the amount of deposits with the banks. In this way deposits go on increasing @ 80% of the last deposit. The number of times, the total deposits will become, is determined by the deposit or money multiplier:

Money Multiplier = $\frac{1}{LRR} = \frac{1}{0.2} = 5$

The total deposits will be: Initial deposit x Money Multiplier = 10,000 × 5 = ₹50,000

OR

A large section of the population in India do not have their bank accounts. Jan-Dhan Yojana prompts people to open their bank accounts. When more and more accounts are opened then some of the cash balances with the people (or idle cash lying with the people) is bound to reach the banking system as cash deposits or primary deposits. This increase enables commercial banks to increase their cash reserves with the central bank. If ACR (additional cash reserves with the RBI) = ₹10,000 and if CRR = 4%, then the additional demand deposits the banks can create = ¼ × 10 000 = ₹2,50,000. This is how Jan-Dhan Yojana may be used as an instrument to increase supply of money by the commercial banks.

18. (a)
- **Banker:** A central bank conducts the banking account of government departments. It performs the same banking functions for the government as commercial bank performs for its customers. It accepts their deposits and undertakes inter-bank transfers. It also gives loans to the government.
- **Agent:** A central bank also provides various services as agent of the government. It manages public debt. It undertakes payment of interest on this debt, and all sorts of other services relating to public debt.
- **Advisor:** Central bank gives advice to the government regarding money market, capital market, government loans, and on economic policy matters.

  This function signifies the mutual and common interest of central bank and government. Central bank carries out monetary policy, while government carries out fiscal policy. Both the policies are intimately connected. The main objective of both is to serve the public interest. This function is a source of cooperation between the government and the central bank.

(b) **Lender of last resort function of the central bank:** When commercial banks fail to meet their financial requirements from other sources, they approach the central bank to give loans and advances as lender of the last resort. Central bank assists these banks through discounting of approved securities and bills of exchange.

19. (a) **Open market operation:** Open market operations (OMO) refers to buying and selling government securities by the Central Bank from/to the public and commercial banks, is authorized to sell or purchase treasury bills and government securities. It does not no whether the securities are brought or sold to the public or banks because ultimately the amounts be deposited in or transferred from some banks.

- Sate of securities by central bank reduces the reserves of commercial banks. It adverse affects the bank's ability to create credit and therefore decrease the money supply the economy.
- Purchase of securities by central bank increases the reserves and raises the bank's ability to give credit.

(b) **Reserve Repo Rate:** It is the rate at which commercial banks park their funds with RBI. Banks are always happy to park funds with RBI as their money is in safe hands with a good interest rate. RBI makes use of this tool when it feels that there is excess money supply in the banking system.

(c) **Margin Requirements:**

(i) Difference between the 'market value of security offered' and the 'value of amount lent' is called margin requirement.

(ii) Commercial banks generally lend funds to borrowers against some securities offered by the borrowers and acceptable by the bank.

(iii) An increase in margin reduces the borrowing capacity whereas, a fall in margin encourages the people to borrow more.

(iv) Suppose, the central bank fixes a 20% margin. Now, commercial banks can lend ₹800 against a security of ₹1,000. If central bank raises the margin to 30%, then commercial banks can lend only ₹70 against the same security of ₹1,000.

❖❖❖❖❖