



ECONOMICS

BOOKS - RADHA BHUGANA

ECONOMICS (HINGLISH)

Banking

Let Us Recapitulate

1. If Primary deposit is 1000 ,calculate the deposit/money multiplier when

(a) Legal reserve ratio is 20% , (b) Legal reserve ratio is 80%

Also find the money created by banks.



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2. If the initial deposit is 800 and the legal reserve ratio is 25% what is the money created by the banking system?



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3. If the money created by the banks is 500 and the legal reserve ratio is 20% find the value of primary deposit.



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4. If the money created by the banking system is 1000 and the primary deposit is 250 what is the value of the deposit multiplier and the legal reserve ratio?



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5. Increase in bank rate helps to correct_____.



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6. Decrease in cash reserve ratio helps to correct_____.



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7. Sale of securities by RBI helps to correct_____.



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8. Decrease in margin requirement helps to correct_____.



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9. Purchase of securities in the open market by RBI helps to correct_____.



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10. Decrease in bank rate helps to correct_____.



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Multiple Choice Question

1. The rate at which the central bank lends money to commercial banks

A. CRR

B. SLR

C. bank rate

D. all of these

Answer: c



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2. Deposit or money multiplier is

A. $\frac{1}{C}R$

B. $\frac{1}{S}LR$

C. $\frac{1}{L}R$

D. none of these

Answer: c



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3. To control excess demand, CRR is

A. decreased

B. increased

C. does not change

D. none of these

Answer: b



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4. _____ bank nurtures the market for govt securities in india

A. commerical bank

B. central bank

C. world bank

D. none of these

Answer: b



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5. The function performed by central bank

A. currency authority

B. banker of the govt

C. banker to commercial banks

D. all of these

Answer: d



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6. Higher the legal reserve ratio _____ will be the credit creation:

A. higher

B. lower

C. constant

D. none of these

Answer: b



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7. Who regulates money supply?

A. Government of India

B. Reserve Bank of India

C. Commercial Banks

D. Planning Commission

Answer: b



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8. If $CRR=5\%$ and $SLR =20\%$ money multiplier is

:

A. 20

B. 4

C. 5

D. none of these

Answer: b



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9. RBI is the sole authority to issue currency to ensure:

A. uniformity in note circulation

B. build up public faith in the currency system

C. govt control over the money supply

D. all of these

Answer: d



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10. To control inflation RBI would increase:

A. Bank rate

B. Repo rate

C. Reverse repo rate

D. all of these

Answer: d



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11. Identify qualitative instrument to check money supply

A. CRR

B. SLR

C. open market operation

D. Mural suasion

Answer: d



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12. _____ issue 1 currency notes in india:

A. Ministry of govt and consumer services

B. Ministry of finance

C. RBI

D. commercial banks

Answer: b



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13. Identify a commercial bank from the following

A. LIC

B. UTI

C. SBI

D. None of these

Answer: c



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14. Identify an instrument of monetary policy:

- A. Govt.revenue
- B. Govet expenditure
- C. Bank deposits
- D. Bank rate

Answer: d



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15. _____ refers to minimum percentage of deposits of commercial banks to be kept with RBI

A. SLR

B. CRR

C. Repo rate

D. Reverse repo rate

Answer: b



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Objective Type Question

1. Why are LIC and ITI not called banks ?



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2. Mention one main reason of difference between a central bank and commercial bank



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3. What do you mean by bank of issue ?



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4. Define bank rate



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5. What will be the effect of a rise in the bank rate for money supply?



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6. What is the meaning of open market operations?



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7. What is Cash Reserve Ratio?



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8. What is meant by statutory liquidity ratio?



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9. What is moral suasion ?



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10. Define legal reserve ratio?



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[Conceptual Questions](#)

1. What are commercial banks ?



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2. Write down the two essential conditions to become a bank



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3. What are the functions of a commercial bank?





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4. What is a central bank?



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5. What are the functions of a central bank?



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6. What are the instruments of monetary policy of RBI? How does RBI stabilise money supply against exogenous shocks?



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7. What role of RBI is known as lender of last resort?



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1. Calculate the value of money multiplier and total deposit created if initial deposit is of 4000 crore and LRR is 10%



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2. Calculate the legal reserve requirements if initial deposit of 1200 crore leads to creation of total deposits of 6000 crore.



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3. Differentiate between quantitative instruments of credit control and qualitative instruments of credit control



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4. Whether the following changes by the Reserve Bank will increase the money supply or decrease the money supply ?

(i) Rise in CRR.

(ii) Purchase of securities in the open market

(iii) RBI increases the margin from 40% to 60%

(iv) RBI reduces the statutory liquidity ratio

(v) Decrease in bank rate.



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5. Define high powered money



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Value Based Question

1. Why is the central bank sole authority for the issue of currency in the country?



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2. In a particular year, RBI instructed the commercial banks not to advance loans to people whose annual income is above 6 lakh. Is it justified? Why?



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Guidelines To Ncert Question

1. What is money multiplier ? How will you determine its value? What ratios play an important role in the determination of the value of the money multiplier?



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Short Answer Type Questions

1. Calculate and show the working of money creation by commercial banks if

(i) Primary deposit is 1250 crore and LRR is 10%



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2. If total deposits created by commercial banks are 40000 crore and initial deposit was 4000 crore what will be deposit/money multiplier and LRR?



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