



ECONOMICS

BOOKS - RADHA BHUGANA ECONOMICS (HINGLISH)

Banking

Let Us Recapitulate

1. If Primary deposit is 1000 ,calculate the deposit/money multipler 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?

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



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?





6. Decrease in cash reserve ratio helpls to

correct_____.

7. Sale	of	securities	by	RBI	helps	to
correct_		·				
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8. Decrease in margin requirement heps to correct						
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9. Purchase of securities in the open market by

RBI helps to correct_____. Watch Video Solution **10.** Decrease in bank rate helps to correct . Watch Video Solution

Multiple Choice Question

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

A. CRR

B. SLR

C. bank rate

D. all of these

Answer: c

2. Deposit or money multiplier is

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

B. $\frac{1}{S}LR$
C. $\frac{1}{L}\mathbb{R}$

D. none of these

Answer: c



3. To control excess demand, CRR is

A. decreased

B. increased

C. does not change

D. none of these

Answer: b

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

5. The function performed by central bank

A. currency authority

B. bamker ot the govt

C. bamker to commercial banks

D. all of these

Answer: d

6. Higher the lega reserve ratio _____will be the

credit creation:

A. higher

B. lower

C. constant

D. none of these

Answer: b

7. Whe regulates money suppey?

A. Government of India

B. Reseve Bank of India

C. Commerical Banks

D. Planning commission

Answer: b

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

A. 20

:

B.4

C. 5

D. none of these

Answer: b

9. RBI is the sole authority to issue currency to

ensure:

A. uniformity in note circualtion

B. build up public faith in the currency

system

C. govt control over the money supply

D. all of these

Answer: d

10. To control inflation RBI would increase:

A. Bank rate

B. Repo rate

C. Reverse repo rate

D. all of these

Answer: d

11. Identify qualitative instrument to check money supply

A. CRR

B. SLR

C. open market operation

D. Mural suasion

Answer: d

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

13. Identify a commercial bank from the following

A. LIC

B. UTI

C. SBI

D. None of these

Answer: c

14. Identify an instrument of monetary policy:

A. Govt.revenue

B. Govet expenditure

C. Bank deposits

D. Bank rate

Answer: d

15. _____refers to minimum percentage of deposits of commerical banks to be kept with RBI

A. SLR

B. CRR

C. Repo rate

D. Reverse repo rate

Answer: b

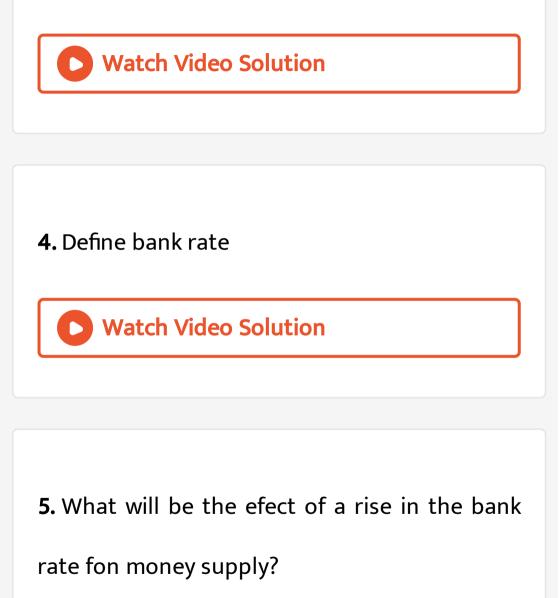
1. Why are LIC and ITI not called banks ?



2. Mention one main reason of difference

between a central bank and commerical bank

3. What do you mean by bank of issue?



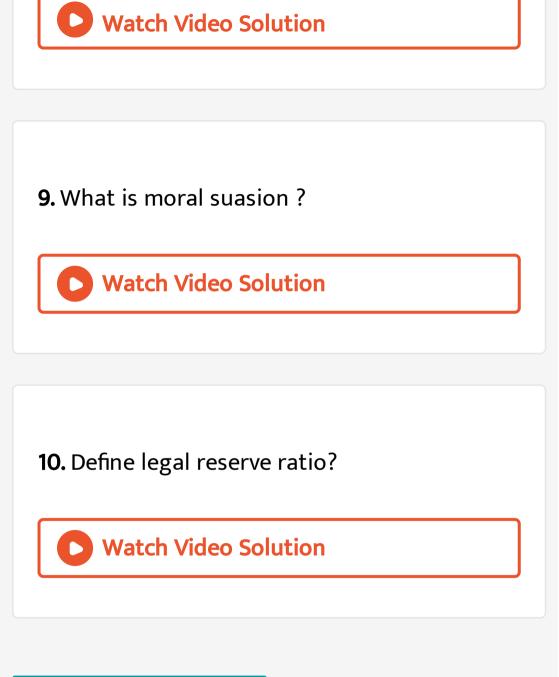
6. What is the meaning of open market operations?



7. What is Cash Reserve Ratio?

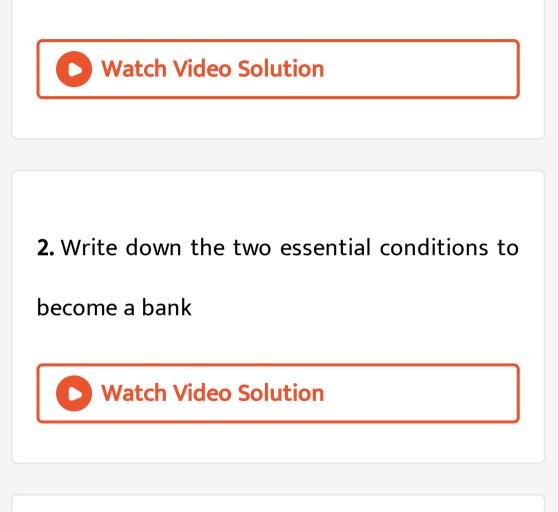


8. What is meant by statutory liquidity ratio?



Conceptual Questions

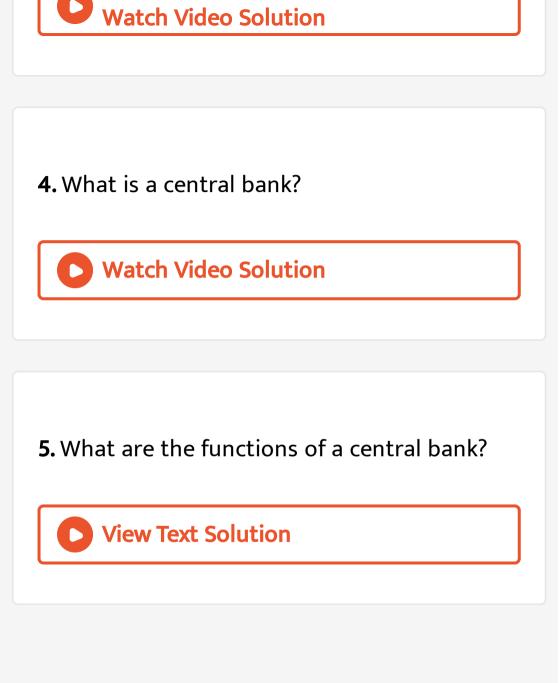
1. What are commerical banks ?



3. What are the functions of a commerical

bank?





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



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

resort?

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Higher Order Thinking Skills

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

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2. Calculate the lega reserve requirements if

initial deposit of 1200 corore leads to creation

of total deposits of 6000 crore.



3. Defferentiate between quantitative instruments of credit control and qualitative insutruments of credit control



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

(i) Rise in CRR.

(ii) Pruchase of securties in the open market

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

(iv) RBI reduces the statutrory 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 particlualr year ,RBI instructed the commerical banks not to advance loans to people whose annual income is above 6 lakh .Is it justified ? Why?

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



Short Answer Type Questions

1. Calculate and show the working of money

creation by commerical banks if

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



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



