CHAPTER 8

MONEY MARKET

UNIT 1 : THE CONCEPT OF MONEY DEMAND: IMPORTANT THEORIES

Introduction to Money

1. Barter exchange refers to exchange of goods/services for goods/services. Which of the following is the limitation of Barter exchange?

(*a*) Lack of Double coincidence of wants

(*b*) Lack of store of value

(*c*) Lack of common measure of value

(*d*) All of the above

2. Which of the following is the primary function of money?

(*a*) Medium of exchange

(*b*) Standard of Deferred Payments

(*c*) Store of value

(*d*) All of the above

3. Which function of money is also known by the name of "Unit of Account"?

(*a*) Medium of exchange

(*b*) Standard of deferred Payments

(*c*) Measure of value

(*d*) Store of value

4. If there were no money, we would be reduced to a ___________.

(*a*) Non-Monetary Economy

(*b*) Barter Economy

(*c*) Monetary Economy

(*d*) None of the above

5. Fiat money is materially _______ but has _______ simply because a nation collectively agreed to ascribe a value to it.

(*a*) Worthless, value

(*b*) Valuable, worthless

(*c*) Transparent, liquid

(*d*) Liquid, exchangeability

6. Which of the following is Not a Part of general characteristics that money should possess in order to make it serve its function as money.

(*a*) Generally Acceptable & possessing uniformity

(*b*) Durable or long-lasting

(*c*) Portable & effortlessly recognizable

(*d*) Easily counterfeitable

7. Any unit of money, whose face value and intrinsic value are equal, is known as _______.

(*a*) Full-Bodied Money

(*b*) Representative full-bodied money

(*c*) Credit money

(*d*) All of the above

8. Which one of the following form of legal tender money can be paid in discharge of a debt up to a certain limit only?

(*a*) Coins

(*b*) Paper Notes

(*c*) Cheques

(*d*) Bank Draft

9. Choose the incorrect statement.

(*a*) Anything that would act as a medium of exchange is money

(*b*) Money has generalized purchasing power and is generally acceptable in settlement of all transactions

(*c*) Money is a totally liquid asset and provides us with means to access goods and services

(*d*) Currency which represents money does not necessarily have intrinsic value

10. Money performs all of the three functions mentioned below, namely:

(*a*) Medium of exchange, price control, store of value

(*b*) Unit of account, store of value, provide yields

(*c*) Medium of exchange, unit of account, store of value

(*d*) Medium of exchange, unit of account, income distribution

The Demand for Money

11. Demand for money is:

(*a*) Derived demand

(*b*) Direct demand

(*c*) Real income demand

(*d*) Inverse demand

12. Higher the _______, higher would be _______ of holding cash and lower will be the _______.

(*a*) Demand for money, opportunity cost, interest rate

(*b*) Price level, opportunity cost, interest rate

(*c*) Real income, opportunity cost, demand for money

(*d*) Interest rate, opportunity cost, demand for money

13. The money is demanded for its purchasing power. Therefore, the demand for money is in the nature of _______.

(*a*) Purchasing power demand

(*b*) Real power demand

(*c*) Direct demand.

(*d*) Derived demand

14. The demand for money is actually

(*a*) Demand for liquidity

(*b*) Demand to store value

(*c*) Both (*a*) and (*b*)

(*d*) None of the above

15. The decision about how much of one's given stock of wealth should be held in the form of money rather than as other assets (like bonds) is called as _______.

(*a*) Demand for money

(*b*) Decision for money

(*c*) Supply of money

(*d*) None of above

16. The individuals, households as well as firms hold money which gives little or no return. This is because ______.

(*a*) Money is liquid

(*b*) Money has demonstration effect

(*c*) Money gives authority

(*d*) None of these

17. The quantity of nominal money or how much money people would like to hold in liquid form depends many factors. Which of the following is the variable on which this demand for money demands?

(*a*) Income

(*b*) General level of prices & rate of interest

(*c*) Real GDP and the degree of financial innovation

(*d*) All of the above

18. The quantity which people desire to hold is ______ proportional to the income.

(*a*) Directly

(*b*) Inversely

(*c*) Regressive

(*d*) None of these

19. The Demand for money depends upon prevailing price level. ______ the prices, ______ should be the holding of money.

(*a*) Lower, Higher

(*b*) Higher, Lower

(*c*) Higher, Higher

(*d*) Lower, Lower

20. Which of the following innovation, has reduced the need for holding liquid money?

(*a*) Internet Banking

(*b*) Application based transfer

(*c*) Automated Teller Machines

(*d*) All of the above

21. The rate of interest is crucial factor on which demand for money depends on. The demand for money is ______ proportional to the interest rate.

(*a*) Directly

(*b*) Inversely

(*c*) Progressively

(*d*) None of the above

Theories of Demand for money

22. Which one of the following is not a theory of Demand for money?

(*a*) The quantity theory of money

(*b*) Hicksian theory of Demand

(*c*) Cash Balance Approach

(*d*) Keynesian theory of Demand for money

23. The quantity theory of money holds that:

(*a*) Changes in the general level of commodity prices are caused by changes in the quantity of money

(*b*) There is strong relationship between money and price level and the quantity of money is the main determinant of the price

(c) Changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation

(d) All of the above

24. Which theory was propounded in the book "The Purchasing power of money"?

(a) Quantity theory of money

(b) Cash Balance Approach

(c) Keynesian theory of Demand for money

(d) None of these

25. As regards Fisher's quantity of money, which of the following is incorrect?

(a) There is direct relationship between money supply and inflation

(b) There is indirect relationship between money supply and value of money

(c) Price is a passive factor

(d) The economy is not at full employment

26. Both the versions of the quantity theory of money demonstrate that there is a _______ relationship between money and price level and the quantity of money is the _______ determinant of the price level or value of money.

(a) Weak, main

(b) Strong, main

(c) Weak, very passive

(d) Strong, very passive

27. Which one of following is the criticism of Quantity theory of money?

(a) Velocity of money (V) and total number of transactions (T) are constant

(b) There is full employment in economy

(c) Money is only used as medium of exchange

(d) All of the above

28. Fisher's version is formally stated as MV=PT. In this equation of exchange.

(a) M and V are constant

(b) P and T are constant

(c) M and P are constant

(d) V and T are constant

29. Which are of the following is the expanded form of Fisher's equation of exchange?

(a) MV=PT

(b) MV+M′V′=P′T′

(c) MV=PT+PT

(d) MV+M′V′=PT+P′T′

30. As per fisher's expanded quantity theory of money, the total value of transactions made is equal to_______ and the value of money flow is equal to _______.

(a) MV; PT

(b) PT; MV

(c) PT; MV+M′V′

(d) MV+M′,V′; PT

31. The Cambridge approach to quantity theory is also known as:

(a) Cash balance approach

(b) Fisher's theory of money

(c) Classical approach

(d) Keynesian Approach

32. Fisher's approach and the Cambridge approach to demand for money consider:

(*a*) Money's role in acting as a store of value and therefore, demand for money is for storing value temporarily

(*b*) Money as a means of exchange and therefore demand for money is termed as for liquidity preference

(*c*) Money as a means of transactions and therefore, demand for money is only transaction demand for money

(*d*) None of the above

33. The Cambridge equation is:

M^d=K.P.Y.

In above equation, _______ is exogenous.

(*a*) M^d

(*b*) K

(*c*) P

(*d*) Y

34. The Cambridge equation focuses on _______ instead of _______.

(*a*) Money demand; money supply

(*b*) Money supply; money demand

(*c*) Money demand; money movement

(*d*) Money supply; money movement

35. The cash balance approach was put forward by Cambridge economists. The economists associated with this approach are:

(*i*) Alfred Marshall

(*ii*) A.C. Pigou

(*iii*) D.H. Robertson

(*iv*) John Maynard Keynes

(*a*) (*i*) only

(*b*) (*i*) and (*ii*)

(*c*) (*i*), (*ii*) and (*iii*)

(*d*) (*i*), (*ii*), (*iii*) and (*iv*)

36. The Cambridge money demand function is stated as follows:

M_d=KPY.

In this equation, PY stands for:

(*a*) National Income

(*b*) Real National Income

(*c*) Nominal Income

(*d*) Real Income.

37. In Cambridge money demand function, _______ is a parameter reflecting the proportion of national income (PY) that people want to hold as cash balance:

(*a*) M_d

(*b*) K

(*c*) P

(*d*) Y

38. Real money is:

(*a*) Nominal money adjusted to the price level

(*b*) Real national income

(*c*) Money demanded at given rate of interest

(*d*) Nominal GNP divided by price level

39. With reference to Cambridge theory, the product of the price level (P) and the real Income (Y) is known as _______.

(*a*) Nominal Income

(*b*) National Income

(*c*) Real Income

(*d*) Equilibrium Income

40. The Keynesian Theory of Demand for money is also called as:

(*a*) Demand Preference Theory

(*b*) Liquidity Preference Theory

(*c*) Preference Demand Theory

(*d*) Preference Liquidity Theory

41. The people hold their resources in liquid form when they can get interest by lending money or buying bonds or stocks. According to Keynes, by which motive the desire to hold money arises?

(*a*) Transaction motive

(*b*) Precautionary motive

(*c*) Speculative motive

(*d*) All of the above

42. The receipt of money and payments do not coincide. So, a certain amount of cash is kept in hand to make current payments. Which motive is this, according to the Keynesian Theory?

(*a*) Transaction motive

(*b*) Precautionary motive

(*c*) Speculative motive

(*d*) Unforeseen motive

43. According to John Maynard Keynes, the transactions demand for money depends only on the ______ and not influenced by the ______.

(*a*) Rate of Interest, level of Income

(*b*) Level of Income, Rate of Interest

(*c*) Psychology of individual, Real Income

(*d*) Psychology of individual, Rate of Interest

44. As per liquidity preference theory, the transactions demand for money is a ______ proportional and ______ function of the level of income.

(*a*) Direct, positive

(*b*) Indirect, positive

(*c*) Direct, negative

(*d*) Indirect, negative

45. Under Keynesian theory, the aggregate transaction demand for money is a function of ______.

(*a*) Specific Income

(*b*) Individual Income

(*c*) Notional Income

(*d*) National Income

46. The precautionary money balances people want to hold______.

(*a*) As income elastic and not very sensitive to rate of interest

(*b*) As income inelastic and very sensitive to rate of interest

(*c*) Are determined primarily by the level of transactions they expect to make in the future

(*d*) Are determined primarily by the current level of transactions

47. Under ______ motive, people hold money in cash form or liquid form for unforeseen contingencies such as sickness, accident, danger of unemployment and other uncertain perils.

(*a*) Transaction

(*b*) Speculative

(*c*) Precautionary

(*d*) Non-contingency

48. Prof. J.M. Keynes regarded the Precautionary balances as income ______ and by itself not very sensitive to ______.

(*a*) Elastic, rate of interest

(*b*) Inelastic, rate of interest

(*c*) Elastic, level of income

(*d*) Inelastic, level of income

49. The amount of money demanded under the precautionary motive depends on ______.

(*a*) Size of income

(*b*) Prevailing economic/political conditions

(*c*) Personal characteristics of individual

(*d*) All of the above

50. Speculative demand for money ______

(*a*) Is not determined by interest rates

(*b*) Is positively related to interest rates

(*c*) Is negatively related to interest rates

(*d*) Is determined by general price level

51. Which one the following motive reflects people's, desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure?

(*a*) Transaction motive

(*b*) Precautionary motive

(*c*) Speculative motive

(*d*) Non-speculative motive

52. Under liquidity preference theory, Keynes assumed that the expected return on money is ______ while the expected return on bonds are ______ and ______.

(*a*) Zero, interest payment, expected rate of capital gain

(*b*) One, interest payment, expected rate of capital gain

(*c*) Zero, fixed interest, fixed loss

(*d*) None of the above

53. With reference to speculative demand for money, the market value of bonds and the market rate of interest are ______ related.

(*a*) Positively

(*b*) Inversely

(*c*) Directly

(*d*) Not

54. According to Keynes, if the current interest rate is high:

(*a*) People will demand more money because the capital gain on bonds would be less than return on money

(*b*) People will expect the interest rate to rise and bond price to fall in the future

(*c*) People will expect the interest rate to fall and bond price to rise in the future

(*d*) Either (*a*) or (*b*) will happen

55. Under liquidity preference theory, if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist ______.

(*a*) Only government bonds

(*b*) Wholly of cash

(*c*) Both cash and bonds equally

(*d*) Either cash or bonds

56. _______ is an adverse economic situation that can occur when consumers and investors hoard cash rather than spending or investing it even when interest rates are low.

(*a*) Liquidity trap

(*b*) Monetary trap

(*c*) Precautionary trap

(*d*) Stimulus trap

57. There is a liquidity trap at short term _____ per cent interest rate.

(*a*) 10

(*b*) 7.5

(*c*) 5

(*d*) Zero

58. Which of the following statement is correct, in the situation of liquidity trap?

(*a*) Investors would maintain cash savings rather than hold bonds

(*b*) The speculative demand becomes perfectly elastic with respect to interest rate

(*c*) The speculative money demand curve becomes parallel to the X-axis

(*d*) All of the above

59. In the situation of liquidity trap, the monetary authority is _______ to stimulate the economy with monetary policy.

(*a*) Unable

(*b*) Able

(*c*) Perfectly able

(*d*) Very effective

Post-Keynesian Developments in the Theory of demand for Money

60. The inventory-theoretic approach to the transactions demand for money_______________.

(*a*) Explains the negative relationship between money demand and the interest rate

(*b*) Explains the positive relationship between money demand and the interest rate

(*c*) Explains the positive relationship between money demand and general price level

(*d*) Explains the nature of expectations of people with respect to interest rates and bond prices

61. In which approach, the money or real cash balance was essentially viewed as an inventory held for transaction purposes.

(*a*) Inventory explicit Approach

(*b*) Inventory implicit Approach

(*c*) Inventory theoretic Approach

(*d*) Inventory regressive Approach

62. Who has developed deterministic theory of transaction demand for money known as Inventory Theoretic approach?

(*a*) Baumol and Tobin

(*b*) Baumol and Fisher

(*c*) Tobin and Fisher

(*d*) Baumol and Marshall

63. According to Baumol which of the following formula can be used to calculate the average amount of cash withdrawal which minimises cost?

(a) $C=\sqrt{2byr}$

(b) $C=\sqrt{\frac{2by}{r}}$

(c) $C=\sqrt{\frac{byr}{2}}$

(d) $C=\sqrt{\frac{2br}{y}}$

64. In accordance with the Inventory Theoretic Approach, an individual combines his asset portfolio of ______ and ______ in such proportions that his ______ of holding the assets is minimized.

(a) Cash; bonds; overall cost

(b) Shares; bonds; overall cost

(c) Cash; bond; bond cost

(d) Cash; bond; Cash cost

65. The nominal demand for money rises if:

(a) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively- decline and *vice versa*

(b) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively- rises and *vice versa*

(c) The opportunity costs of money holdings - *i.e.* bonds and stock returns, r_B and r_E, respectively remain constant

(d) (b) and (c) above

66. ____________ considered demand for money is as an application of a more general theory of demand for capital assets.

(a) Baumol

(b) James Tobin

(c) J. M. Keynes

(d) Milton Friedman

67. As per Milton Friedman's restatement of the quantity Theory, the nominal demand for money is a function of __________, which is represented by permanent income divided by the ______ rates, defined as the average return on the ________ asset classes in the monetarist theory world.

(a) Total wealth, discount, five

(b) Total wealth, Interest, five

(c) Permanent wealth, Interest, six

(d) None of these

68. As per Friedman's theory, the nominal demand for money is influenced by inflation, a positive inflation rate ________ the real value of money balances, there by ________ the opportunity costs of money holdings.

(a) Increases, reduces

(b) Reduces, increasing

(c) Stimulates, reduces

(d) None of these

69. The present expected value of all future income is Friedman's measure of wealth. Friedman's regarded this as ______.

(a) Permanent income

(b) Current income

(c) Temporary income

(d) Flexible income

70. Under Friedman's Quantity theory, the nominal demand for money is ______ related to the price level.

(a) Negatively

(b) Positively

(c) Regressively

(d) Not

71. According to James Tobin's theory, an individual's behaviour shows risk aversion, which means they prefer ______ risk to ______ risk at a given rate of return.

(a) Less, more

(b) More, less

(c) Less, positive

(d) More, negative

72. Tobin's theory holds that people prefer __________ portfolio of money, bonds and shares, with each person opting for a little different balance between risk and return.

(a) Mixed

(b) Diversified

(c) Mixed or diversified

(d) non-diversified

73. In Tobin's portfolio approach, the demand function for money as an asset slopes downwards, where horizontal axis shows ______ and vertical axis shows _____.

(a) Demand for money, rate of interest

(b) Rate of interest, demand for money

(c) Supply for money, rate of Interest

(d) Demand for money, supply for Money

74. The demand for money as behaviour towards "aversion to risk" was propounded by:

(a) Fisher

(b) Marshall

(c) Friedman

(d) Tobin

75. Which of the following statement holds true with reference to Tobin's Demand for money theory involving individual's behaviour towards risk?

(a) Money is a safe asset

(b) Investor will be willing to exercise a trade-off

(c) Investor sacrifice to some extent, the higher return from bonds for a reduction in risk

(d) All of the above

76. According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:

(a) A positive function of income Y and the price level P

(b) A positive function of transactions costs c,

(c) A negative function of the nominal interest rate i

(d) All the above

UNIT 2 : CONCEPT OF MONEY SUPPLY

Money Supply : Rationale & Sources

77. The total stock of money held by the __________ in an economy at a particular point of time is called Money Supply.

(a) Public

(b) Government

(c) Banks

(d) Corporate Entities

78. Money Supply is a ________ variable.

(*a*) Flow

(*b*) Stock

(*c*) Both (*a*) & (*b*)

(*d*) None of the above

79. Money Supply does not include stock of money held by the ________ as well as ________ of country.

(*a*) Public, government

(*b*) Public, banking system

(*c*) Government, banking system

(*d*) Public, banks

80. Which one of the following is the feature of money supply?

(*a*) Money includes money held by public only

(*b*) Money does not include money-creating sector (suppliers of money)

(*c*) Money is a stock concept, as it is concerned with a particular point of time

(*d*) All of the above

81. Choose the correct statement from the following:

(*a*) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply

(*b*) Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply

(*c*) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply

(*d*) Both (*a*) and (*c*) above

82. Which one of the following is not the producers of money?

(*a*) Government

(*b*) Banking System

(*c*) Household & Firms

(*d*) All of the above

83. In the definition of money supply, the term public includes economic unit:

(*a*) Households

(*b*) Firms

(*c*) Institutions

(*d*) All of the above

84. While discussing the definition of "Supply of Money" and the Standard measures of money, ________ is/are not included.

(*a*) Inter bank Deposits

(*b*) Money held by the Government

(*c*) Banking System

(*d*) All of the above

85. In the definition of money supply, the word "public" includes:

(*a*) All Local Authorities

(*b*) Non-Banking Financial Institutions

(*c*) Foreign Central Banks

(*d*) All of the above

86. The Central Banks all over the World adopt monetary policy which depends to a large extent on the controllability of the:

(*a*) Monetary base

(*b*) Money Supply

(*c*) Monetary base & the money Supply

(*d*) Money Supply & money demand

87. The empirical analysis of the ________ facilitates analysis of monetary developments in order to

provide a deeper Understanding of the causes of money growth.

(*a*) Money Supply

(*b*) Money Demand

(*c*) Money supplied by households

(*d*) Money demanded by Governments

88. The supply of money in the economy depends on the decision of:

(*a*) Commercial Banks

(*b*) Central Bank

(*c*) Ministry of Finance

(*d*) Central Government

89. Paper currency is a:

(*a*) Representative Money

(*b*) Full-bodied Money

(*c*) Metallic Money

(*d*) None of the above

90. The primary source of money supply in all countries is:

(*a*) The Reserve Bank of India

(*b*) The Central bank of the country

(*c*) The Bank of England

(*d*) The Federal Reserve

91. The supply of money in an economy depends on.

(*a*) The decision of the central bank based on the authority conferred on it

(*b*) The decision of the central bank and the supply responses of the commercial banking system

(*c*) The decision of the central bank in respect of high powered money

(*d*) Both (*a*) and (*c*) above

92. Under the 'minimum reserve system' the central bank is________.

(*a*) Empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities

(*b*) Empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities

(*c*) Empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities

(*d*) Empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ₹ 350 crores .

93. The Money is a liability of the __________ and an asset of the __________.

(*a*) Issuing central bank, holding public

(*b*) Pubic, central bank

(*c*) Issuing central bank, central government

(*d*) Central government, issuing central bank

94. The currency issued by the Central Bank is "FIAT MONEY" and is backed by supporting __________ and its value is guaranteed by the __________.

(*a*) Currency, central Bank

(*b*) Currency, government

(*c*) Reserves, government

(*d*) Reserves, central bank

95. Banks create money supply in the process of borrowing and lending transactions with the public. Money so created by the commercial Banks is called:

(*a*) Credit Money

(*b*) Artificial Money

(*c*) Debit Money

(*d*) None of these

96. Which of the following is a type of money?

(*a*) Metallic Currency

(*b*) Paper Currency

(*c*) Digital Currency

(*d*) All of the above

97. With the advent of cutting edge technologies and advancement in technology has made it possible for the development of new form of money *viz*. CBDC. What is the full form of CBDC?

(*a*) Central Bank Digital Certificate

(*b*) Central Bank Dynamic Certificate

(*c*) Central Bank Digital Currency

(*d*) Central Bank Dynamic Currency

98. At present, which of the following Statement is true about the crypto currencies?

(*a*) These face Significant Legislative Uncertainties

(*b*) These are not legally recognised in India as currency

(*c*) These are not categorized as money

(*d*) All of the above

99. Banks in the country are required to maintain deposits with the central bank____________.

(*a*) To provide the necessary reserves for the functioning of the central bank

(*b*) To meet the demand for money by the banking system

(*c*) To meet the central bank prescribed reserve requirements and to meet settlement obligations

(*d*) To meet the money needs for the day to day working of the commercial banks

100. "Money" consists of currency and ____________, while "High Powered Money". Consists of currency and ____________.

(*a*) Demand deposits, cash reserves with banks

(*b*) Cash reserves with Banks, demand Deposits

(*c*) Public money, paper money

(*d*) Paper money, public money

Measurement of Money Supply

101. Till 1967-68, the RBI used to publish ____________ measure of money supply.

(*a*) M_1

(*b*) M_1 and M_2

(*c*) M_1, M_2 and M_3

(*d*) M_1, M_2, M_3 and M_4

102. In India, who releases data on money supply?

(*a*) RBI

(*b*) Central Government

(*c*) Ministry of Finance

(*d*) Commercial Banks

103. M_1 and M_2 are generally known as ____________ supply concepts, whereas, M_3 and M_4 are known as ____________ supply concepts.

(*a*) Narrow Money, Broad Money

(*b*) Broad Money, Narrow Money

(c) Least Liquid Money, Narrow Money

(d) Broad Money, Most liquid money

104. The four measures of money supply represent different degrees of liquidity. In this regard, ________ is the most liquid and ________ is least liquid.

(a) M_4, M_1

(b) M_1, M_4

(c) M_2, M_3

(d) M_3, M_2

105. Reserve money is also known as.

(a) Central bank money

(b) Base money

(c) High powered money

(d) All of the above

106. Reserve Money is composed of:

(a) Currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI

(b) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

(c) Currency in circulation + demand deposits of banks + Other deposits with the RBI

(d) Currency in circulation + demand and time deposits of banks + Other deposits with the RBI

107. M_1 is the sum of

(a) Currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI

(b) Currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.

(c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI

(d) none of the above

108. The empirical definition of measure M_3 is ________.

(a) $M_3 = M_1 + M_2$

(b) $M_3 = M_1$ + Saving deposits with post office saving banks

(c) $M_3 = M_1$ + Time deposits with the banking system

(d) $M_3 = M_2$ + Saving deposit with post office saving banks

Consider the following data and answer the following questions 109-111.

Currency with Public	₹ 45,000 crores
Demand Deposit with Banking System	₹ 1,00,000 crores
Time Deposits with Banking System	₹ 1,10,000 crores
Other deposit with RBI	₹ 1,40,000 crores
Saving Deposits of Post Office Saving Banks	₹ 30,000 crores

109. What is the amount of Narrow Money (M_1)?

(a) ₹ 2,85,000 crores

(b) ₹ 3,15,000 crores

(c) ₹ 3,95,000 crores

(d) None of the above

110. The calculated value of M_2 is ________.

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

111. The value of M_3 will be ________.

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

112. Consider the following data (₹ crore)?

Notes in circulation	26,09,005
Circulation of Rupee Coin	40,715
Circulation of Small Coins	1,080
Cash on hand and Bank	99,200

What is the currency with the Public?

(a) ₹ 26,09,005 crores

(b) ₹ 26,49,720 crores

(c) ₹ 26,50,800 crores

(d) ₹ 25,51,600 crores

113. Consider the following data:

M_1 ₹ 42,90,550 crores

M_2 ₹ 44,42,695 crores

Calculate the value of Post Office Saving Bank Deposits.

(a) ₹ 87,33,245

(b) ₹ 1,52,145

(c) ₹ 3,04,290

(d) None of these

Read the following data and answer the questions 114 to 116.

Mr. X has calculated following four alternative measures of money supply:

M_1	₹ 4,85,000 crores
M_2	₹ 5,50,000 crores
M_3	₹ 5,90,000 crores
M_4	₹ 6,24,000 crores

114. What is the amount of "Time Deposits with the Banking System"?

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

115. What is the amount of "Saving deposits with Post Office Saving Bank"?

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

116. The Total Deposits with the Post Office Saving Organisation (excluding National Savings certificates) is ________.

(a) ₹ 74,000 crores

(b) ₹ 65,000 crores

(c) ₹ 1,05,000 crores

(d) ₹ 34,000 crores

117. Find M_2, from the following information:

M_4	₹ 4,41,260 cr.
Saving deposits with Post Office Saving Banks	₹ 41,200 cr.
Total Deposits with the Post Office Saving Organisation (excluding National Savings Certificate)	₹ 31,245 cr.
Time Deposits with the Banking System	₹ 65,315 cr.

(a) ₹ 4,10,015 cr.

(b) ₹ 3,44,700 cr.

(c) ₹ 3,85,900 cr.

(d) Cannot be determined

118. On the recommendations of the Second Working Group on money supply, from April 1977, the RBI has been publishing data on which of the following alternative measures of money supply?

(a) M_1 only

(b) M_1 and M_2

(c) M_1, M_2 and M_3

(d) M_1, M_2, M_3 and M_4

Read the following data, and answer the questions (119 to 121)

Particulars	₹ in crores
Notes in Circulation	24,20,964
Circulation of Rupee Coin	25,572
Circulation of Small Coins	743
Post Office Saving Bank Deposits	1,41,786
Cash on Hand with Banks	97,563
Deposit Money of the Public	17,76,199
Demand Deposits with Banks	17,37,692
Other Deposits with RBI	38,507
Total Post Office Deposits	14,896
Time Deposits with Banks	1,78,694

119. Calculate M_1

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

120. Calculate M_2

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

121. Calculate M_3

(a) ₹ 43,04,609

(b) ₹ 41,25,915

(c) ₹ 42,07,046

(d) ₹ 42,67,701

Money Multiplier Approach

122. The Money Multiplier Approach holds that total Supply of nominal money in the economy is determined by the ______ behaviour of the ______.

(a) Single; Central Bank

(b) Joint; Central Bank and Commercial Bank

(c) Joint; Central Bank and Public

(d) Joint; Central Bank, Commercial Banks and the Public

123. The ratio that relates the change in the money supply to a given change in the monetary base is called the:

(a) Required reserve ratio

(b) Money multiplier

(c) Deposit ratio

(d) Discount rate

124. The money multiplier will be large:

(a) For higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)

(c) For lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)

(d) None of the above

125. The money multiplier and the money supply are:

(*a*) Positively related to the excess reserves ratio?

(*b*) Negatively related to the excess reserves ratio?

(*c*) Not related to the excess reserves ratio?.

(*d*) Proportional to the excess reserves ratio?.

126. The currency ratio represents:

(*a*) The behaviour of central bank in the issue of currency

(*b*) The behaviour of central bank in respect cash reserve ratio

(*c*) The behaviour of the public

(*d*) The behaviour of commercial banks in the country

127. The size of the money multiplier is determined by:

(*a*) The currency ratio (c) of the public

(*b*) The required reserve ratio (r) at the central bank, and

(*c*) The excess reserve ratio (e) of commercial banks

(*d*) All of the above

128. The required reserved ratio is 10% for every ₹ 2,00,000 deposited in the banking system. What will be the Credit Multiplier and Credit Creation?

(*a*) 10, ₹ 20,00,000

(*b*) 10, ₹ 20,000

(*c*) 8, ₹ 20,00,000

(*d*) 8, ₹ 20,000

129. For initial deposit of ₹ 5,00,000, the credit creation is calculated at ₹ 40,00,000. What is RRR (required reserved ratio)?

(*a*) 8

(*b*) .08

(*c*) 12.5%

(*d*) Cannot be calculated

130. When there are excess reserves, the money multiplier (m) is expressed as ________.

(*a*) $m = \dfrac{1 + c}{r + e + c}$

(*b*) $m = \dfrac{1 + r}{r + e + c}$

(*c*) $m = \dfrac{1 + e}{r + e + c}$

(*d*) $m = \dfrac{c}{r + e + c}$

131. Which formula is used to find out Money Supply (m) where:

r = required reserve ratio

c = currency - deposit ratio (C/D)

e = ratio of Excess Reserves to Deposits

H = Stock of high powered money

(*a*) $M = \dfrac{1 + c}{r + e + c} + H$

(*b*) $M = \dfrac{1 + C}{r + e + c} \times H$

(*c*) $M = \dfrac{1 + H}{r + e + c} + C$

(*d*) $M = \dfrac{1 + H}{r + e + c} \times C$

132. If M is the money supply, m is the money multiplier and MB is the monetary base or high-powered

money, then which of the following equation is correct?

(*a*) MB = M × m

(*b*) m = MB × M

(*c*) M = MB × m

(*d*) M = MB ÷ m

133. For a given level of the monetary base, an increase in the required reserve ratio will denote

(*a*) A decrease in the money supply

(*b*) An increase in the money supply

(*c*) An increase in demand deposits

(*d*) Nothing precise can be said

134. For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to ________ and the money supply to ________.

(*a*) Decrease; increase

(*b*) Increase; decrease

(*c*) Decrease; decrease

(*d*) Increase; increase

135. ____________ tells us how much new money will be created by the banking system for a given increase in the high-powered money.

(*a*) The currency ratio

(*b*) The excess reserve ratio (*e*)

(*c*) The credit multiplier

(*d*) The currency ratio (*c*)

136. Consider the following data:

Required Reserve Ratio	**10 Per cent**
Currency in circulation	**₹ 400 Billion**
Demand Deposits	**₹ 1000 Billion**
Excess Reserves	**₹ 1 Billion**

The value of money multiplier will be ________.

(*a*) 1.74

(*b*) 2.74

(*c*) 1.79

(*d*) 2.79

137. The ________ the reserve ratio, the ________ of each deposit bank loan out and the ________ the money multiplier.

(*a*) Higher, less, smaller

(*b*) Higher, high element, smaller

(*c*) Smaller, less, smaller

(*d*) None of these

138. Under the fractional reserve system:

(*a*) The money supply is an increasing function of reserve money (or high powered money) and the money multiplier

(*b*) The money supply is an decreasing function of reserve money (or high powered money) and the money multiplier

(*c*) The money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier

(*d*) None of the above as the determinants of money supply are different

139. If commercial banks reduce their holdings of excess reserves

(*a*) The monetary base increases

(*b*) The monetary base falls

(*c*) The money supply increases

(*d*) The money supply falls

140. The Money Multiplier is a function of the current ratio which depends on the :

(*a*) Behaviour of the public

(*b*) Excess reserve ratio of the banks

(*c*) Required reserve ratio set by the Central Bank

(*d*) All of the above

141. Excess reserves ratio (e) is __________ related to the market interest ratio (*i*).

(*a*) Positively

(*b*) Negatively

(*c*) Uniformily

(*d*) Not

142. As a rule, an increase in monetary base that goes into __________ is not multiplied, whereas an increase in monetary based that goes into __________ is multiplied.

(*a*) Supporting deposits, currency

(*b*) Currency, Supporting deposits

(*c*) High Powered Currency, currency

(*d*) Currency, High Powered Currency

143. If some portion of the increase in high-powered money finds its way into __________, this portion does not undergo multiple deposit expansion.

(*a*) Currency

(*b*) Supporting deposits

(*c*) Both (*a*) and (*b*)

(*d*) Neither (*a*) nor (*b*)

144. The size of the money multiplier is reduced when funds are held as __________ rather than as __________.

(*a*) Term Deposits, Cash

(*b*) Cash, Term Deposits

(*c*) Demand deposits, Cash

(*d*) Cash, demand deposits

The Money Multiplier Approach to Supply of Money

145. The Money multiplier approach to money supply was propounded by __________.

(*a*) Milton Friedman

(*b*) Milton Friedman and Anna Schwartz

(*c*) Milton Friedman and Irvin fisher

(*d*) Milton Friedman and Marshall

146. The money multiplier approach to money Supply considers three factors as immediate determinants of money supply. Which one of the following is not included in these factors?

(*a*) Stock of high-powered money (H)

(*b*) The ratio of reserves to deposits or reserve-ratio (r)

(*c*) The ratio of currency to deposits or currency-deposit ratio (c)

(*d*) The ratio of high-powered money to deposits (h)

147. Whose behaviour among the following, has been considered, under Money Multiplier approach?

(*a*) Central Bank

(*b*) Commercial Banks

(*c*) General Public

(*d*) All of the above

148. Under Money Multiplier Approach, the behaviour of the Central Bank which controls the issue of currency is reflected in the __________.

(*a*) Supply of the Nominal High-Powered money

(*b*) Total amount of nominal demand deposits

(*c*) Degree of adoption of banking habits by the people

(*d*) All of the above

149. If the behaviour of the Public and the Commercial banks remain unchanged over time, the total supply of nominal money in the economy will vary _______ with the supply of nominal high-powered money issued by the _______.

(*a*) Directly, Central Bank

(*b*) Negatively, Central Bank

(*c*) Directly, Central Government

(*d*) Negatively, Central Government

150. The Money Multiplier and the money supply are _______ related to the ratio of currency to deposits (c) *i.e.* C/D.

(*a*) Negatively

(*b*) Positively

(*c*) Not

(*d*) Progressively

151. The behaviour of Commercial Banks is important under money multiplier approach to supply of money. By creating credit, the commercial banks determine the total amount of _______.

(*a*) Nominal High-Powered Money

(*b*) Nominal Demand Deposits

(*c*) National High-Powered Money

(*d*) National Demand Deposits

152. Which of the following reflects the behaviour of commercial banks in the economy regarding money multiplier approach to supply of money?

(*a*) Ratio of cash reserves to deposits

(*b*) Ratio of currency to deposits

(*c*) Ratio of cash reserves to currency

(*d*) Ratio of High-powered money to currency

153. Considering all other variables remain the same, If ratio of cash reserves to deposits (reserve ratio) increases, then _______ will decrease.

(*a*) Deposits

(*b*) Money Supply

(*c*) Reserves

(*d*) High-powered money

154. When reserve ratio (r) is 8%, the money multiplier is calculated at 2.58. If the reserve ratio is increased to 12%, the value of money multiplier will be _______.

(*a*) Less than 2.58

(*b*) More than 2.58

(*c*) 2.58

(*d*) Cannot be decided

Monetary Policy and Effect of Government Expenditure on Money Supply

155. The value of money multiplier is zero when:

(*a*) Interest rates are too low

(*b*) Banks prefer to hold the newly injected reserves as excess reasons with no risk attached to it

(c) Both (a) and (b)

(d) Money Multiplier can never be zero

156. As a part of monetary policy, an open market purchase by Central Bank will ________ the reserves and thereby ________ the money supply.

(a) Reduce, reduce

(b) Increase, increase

(c) Reduce, increase

(d) Increase, reduce

157. The credit creation process by the banking system in the country will create money to the tune of Δ money supply = $\frac{1}{R}$ × Δ Reserves.
It holds true, when it assumed that ________.

(a) Banks do not hold excess reserves

(b) People do not hold more currency than before

(c) There is demand for loans from businesses.

(d) All of the above

158. If the Central Bank of a country wants to stimulate economic activity it does so by infusing liquidity into the system. The high powered money (monetary base) is injected into the system when ________.

(a) Government securities are purchased

(b) Government Securities are sold

(c) Any of (a) and (b)

(d) Both (a) and (b)

159. Whenever the Central and the State Government's cash balances fall short of the minimum requirement, they are eligible to avail of a facility. What is the name of that facility?

(a) Ways & Means Advances (WMA)

(b) Overdraft facility (OD)

(c) Both (a) & (b)

(d) None of the above

160. When the Reserve Bank of India lends to the governments under WMA/OD, it can potentially lead to an ________ in money supply through the money multiplier process.

(a) Increase

(b) Decrease

(c) Substantial Decrease

(d) No effect

161. Identify the Correct Statement?

(a) There is no difference between the type of money created by commercial bank and that which are issued by the Central Bank

(b) Money creation is same as is the wealth creation

(c) The deposit multiplier and the money multiplier are identical

(d) In actual practice, all borrowers spend every rupee they have borrowed

162. If required reserve ratio is 20%, then what will be credit multiplier?

(a) 0.2

(b) 0.8

(c) 1.2

(d) 5

163. What is the formula used to calculate credit Multiplier?

(*a*) 100 – Required Reserve Ratio

(*b*) 100 + Required Reserve Ratio

(*c*) 100 × Required Reserve Ratio

(*d*) $\frac{1}{\text{Required Reserve Ratio}}$

164. The credit multiplier is also referred to as the ________.

(*a*) Deposit multiplier

(*b*) Deposit expansion multiplier

(*c*) Both (*a*) & (*b*)

(*d*) None of the above

165. Which describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the Central Banks reserve requirement?

(*a*) Credit multiplier

(*b*) Deposit multiplier

(*c*) Deposit Expansion

(*d*) All of the above

166. What will be the total deposit created if initial deposit is of ₹ 800 crores and required reserve ratio is 10%?

(*a*) ₹ 80 crores

(*b*) ₹ 800 crores

(*c*) ₹ 8000 crores

(*d*) None of these

167. The total deposits created by the commercial banks is ₹ 16,800 crores and the required reserve ratio is 12.5%. Calculate the amount of initial deposits.

(*a*) ₹ 16,800

(*b*) ₹ 2,100

(*c*) ₹ 18,900

(*d*) None of these

168. Initial Deposit of ₹ 1,521 crores lead to creation of total deposits of ₹ 12,168 crores by the commercial banks. What is required reserve ratio?

(*a*) 15%

(*b*) 12.5%

(*c*) 10%

(*d*) 7.5%

UNIT 3 : MONETARY POLICY

The Monetary Policy Framework

169. Monetary Policy refers to the use of monetary policy instruments which are at the disposal of the Central Bank ________.

(*a*) To regulate the availability, cost and use of money and credit

(*b*) To achieve price stability

(*c*) To promote economic growth/ optimum levels of output and employment, balance of payment equilibrium, etc.

(*d*) All of the above

170. Which of the following is the function of monetary policy?

(*a*) Regulate the exchange rate and keep it stable

(*b*) Regulate the movement of credit to the corporate sector

(*c*) Regulate the level of production and prices (*d*) Regulate the availability, cost and use of money and credit

171. Which of the following is a basic component of monetary policy framework?

(*a*) The objectives of monetary policy

(*b*) The analytics of monetary policy which focus on the transmission mechanism

(*c*) The operating procedure which focus on the operating targets and instruments

(*d*) All of the above are basic components

172. The main objective of monetary policy in India is____________:

(*a*) Reduce food shortages to achieve stability

(*b*) Economic growth with price stability

(*c*) Overall monetary stability in the banking system

(*d*) Reduction of poverty and unemployment

173. When the Central Bank lowers interest rates, monetary policy is ______.

(*a*) Easing

(*b*) Tightening

(*c*) Ineffective

(*d*) None of the above

174. Fundamentally, the primary objective of the monetary policy has been:

(*a*) To reduce price stability

(*b*) To curb economic growth

(*c*) To maintain judicious balance between price stability and economic growth

(*d*) None of the above

175. Which of the following is an explicit objective included in the monetary policy of developing countries?

(*a*) Maintenance of economic growth

(*b*) Ensuring an adequate flow of credit to the productive sectors

(*c*) Sustaining a moderate structure of interest rates to encourage investments, and creation of an efficient market for government securities

(*d*) All of the above

176. The monetary transmission mechanism refers to:

(*a*) How money gets circulated in different sectors of the economy post monetary policy

(*b*) The ratio of nominal interest and real interest rates consequent on a monetary policy

(*c*) The process or channels through which the evolution of monetary aggregates affects the level of product and prices

(*d*) None of the above

177. A contractionary monetary policy-induced increase in interest rates.

(*a*) Increases the cost of capital and the real cost of borrowing for firms

(*b*) Increases the cost of capital and the real cost of borrowing for firms and households

(*c*) Decreases the cost of capital and the real cost of borrowing for firms

(*d*) Has no interest rate effect on firms and households

178. During deflation:

(*a*) The RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy

(*b*) The RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy

(*c*) The RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy

(*d*) The RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

179. The analytics of monetary policy focus on the transmission mechanisms. Which of the following is included in such mechanism?

(*a*) The interest rate channel

(*b*) The exchange rate channel

(*c*) The quantum channel and the asset price channel

(*d*) All of the above

180. Which of the following statement is correct?

(*a*) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same

(*b*) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself

(*c*) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)

(*d*) None of the above

181. Which of the following Statements is incorrect?

(*a*) Quantitative instruments are general in nature

(*b*) Quantitative instruments affects all the sectors making use of bank credit

(*c*) Quantitative controls are designed to regulate the direction of credit

(*d*) Quantitative Controls are also known as traditional methods of control

182. As a part of credit control instruments of RBI, which of the following is not a part of Quantitative method?

(*a*) Cash Reserve Ratio (CRR)

(*b*) Statutory Liquidity Ratio (SLR)

(*c*) Open Market Operations (OMO)

(*d*) Margin requirements

183. As a part of open market operations, sale of securities by the Central Bank ________ the money supply in the economy.

(*a*) Decreases

(*b*) Increases

(*c*) Brings no change in

(*d*) Either (*a*) or (*b*)

184. ________ refers to the minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank.

(*a*) Statutory Liquidity Ratio

(*b*) Cash Reserve Ratio

(*c*) Bank Rate

(*d*) Repo Rate

185. In order to control money supply, the RBI buys and sells government securities in the open market.

These operations conducted by the central bank are referred to as:

(*a*) Open Monetary Operations

(*b*) Open Money Operations

(*c*) Open Market Operations

(*d*) Open Marginal Operations

186. The commercial banks are required to maintain with themselves, a minimum percentage of Net Demand & Time liabilities, in the form of designated liquid assets. This ratio is called as:

(*a*) Statutory Liquidity Ratio

(*b*) Cash Reserve Ratio

(*c*) Bank Rate

(*d*) Repo Rate

187. Which one of the following statement is incorrect about Qualitative method of credit control instruments of RBI?

(*a*) These include margin requirements, moral suasion, selective credit controls, etc.

(*b*) These are general in nature and affect all the sectors

(*c*) These are designed to regulate the direction of credit

(*d*) These are also known as selective methods of control

188. Which one of the following is not a part of Qualitative method of credit control instruments of RBI?

(*a*) Open Market Operations

(*b*) Margin requirements

(*c*) Moral suasion

(*d*) Selective credit control

189. _________ is the interest rate at which RBI lends long-term funds to banks.

(*a*) Interest Rate

(*b*) Bank Rate

(*c*) Repo Rate

(*d*) Marginal Rate

190. RBI provides financial accommodation to the commercial banks through repos/reverse repos under:

(*a*) Market Stabilisation Scheme (MSS)

(*b*) The Marginal Standing Facility (MSF)

(*c*) Liquidity Adjustment Facility (LAF)

(*d*) Statutory Liquidity Ratio (SLR)

191. In India, the term 'Policy rate' refers to:

(*a*) The bank rate prescribed by the RBI in its half yearly monetary policy statement

(*b*) The CRR and SLR prescribed by RBI in its monetary policy statement

(*c*) The fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)

(*d*) The fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

192. _________ is a money market instrument, which enables collateralised short-term borrowing and lending through sale/purchase operations in debt instruments.

(*a*) OMO

(*b*) CRR

(*c*) SLR

(*d*) Repo

193. Reverse repo operation takes place when:

(*a*) RBI borrows money from banks by giving them securities

(*b*) Banks borrow money from RBI by giving them securities

(*c*) Banks borrow money in the overnight segment of the money market

(*d*) RBI borrows money from the central government

194. The Monetary Policy Framework Agreement is on ________.

(*a*) The maximum repo rate that RBI can charge from government

(*b*) The maximum tolerable inflation rate that RBI should target to achieve price stability

(*c*) The maximum repo rate that RBI can charge from the commercial banks

(*d*) The maximum reverse repo rate that RBI can charge from the commercial banks

195. An open market operation is an instrument of monetary policy which involves buying or selling of ________ from or to the public and banks.

(*a*) Bonds and bills of exchange

(*b*) Debentures and shares

(*c*) Government securities

(*d*) None of these

196. Monetary Policy Committee (MPC) determines the policy rate to achieve the inflation target through debate and majority vote by a panel of experts. How many members does this MPC consists of?

(*a*) Three members

(*b*) Four members

(*c*) Five members

(*d*) Six members

197. Under ________ the Government of India borrows from the RBI (Such borrowing being additional to its normal borrowing requirements) and issues treasury bills/dated securities.

(*a*) Market Stabilisation Scheme (MSS)

(*b*) Minimum Statutory Scheme (MSS)

(*c*) Marginal Standing Facility (MSF)

(*d*) Minimum Statutory Facility (MSF)

198. ________ is defined as an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.

(*a*) Reverse Repo

(*b*) Repo Rate

(*c*) Bank Rate

(*d*) MSF

199. The Monetary Policy Framework Agreement is an agreement reached between the Government of India and the Reserve Bank of India (RBI) to keep the Consumer Price Index (CPI) inflation rate between ________.

(*a*) 1 to 5 per cent

(*b*) 2 to 6 per cent

(*c*) 3 to 5 per cent

(*d*) 4 to 6 per cent

Answers

1.	(*d*)	2.	(*a*)	3.	(*c*)	4.	(*b*)	5.	(*a*)	6.	(*d*)	7.	(*a*)
8.	(*a*)	9.	(*a*)	10.	(*c*)	11.	(*a*)	12.	(*d*)	13.	(*d*)	14.	(*c*)
15.	(*a*)	16.	(*a*)	17.	(*d*)	18.	(*a*)	19.	(*c*)	20.	(*d*)	21.	(*b*)
22.	(*b*)	23.	(*d*)	24.	(*a*)	25.	(*d*)	26.	(*b*)	27.	(*d*)	28.	(*d*)
29.	(*b*)	30.	(*c*)	31.	(*a*)	32.	(*c*)	33.	(*d*)	34.	(*a*)	35.	(*d*)
36.	(*c*)	37.	(*b*)	38.	(*a*)	39.	(*a*)	40.	(*b*)	41.	(*d*)	42.	(*a*)
43.	(*b*)	44.	(*a*)	45.	(*d*)	46.	(*a*)	47.	(*c*)	48.	(*a*)	49.	(*d*)
50.	(*c*)	51.	(*c*)	52.	(*a*)	53.	(*b*)	54.	(*c*)	55.	(*b*)	56.	(*a*)
57.	(*d*)	58.	(*d*)	59.	(*a*)	60.	(*a*)	61.	(*c*)	62.	(*a*)	63.	(*b*)
64.	(*a*)	65.	(*a*)	66.	(*d*)	67.	(*a*)	68.	(*b*)	69.	(*a*)	70.	(*b*)
71.	(*a*)	72.	(*c*)	73.	(*a*)	74.	(*d*)	75.	(*d*)	76.	(*d*)	77.	(*a*)
78.	(*b*)	79.	(*c*)	80.	(*d*)	81.	(*c*)	82.	(*c*)	83.	(*d*)	84.	(*d*)
85.	(*d*)	86.	(*c*)	87.	(*a*)	88.	(*b*)	89.	(*a*)	90.	(*b*)	91.	(*b*)
92.	(*b*)	93.	(*a*)	94.	(*c*)	95.	(*a*)	96.	(*d*)	97.	(*c*)	98.	(*d*)
99.	(*c*)	100.	(*a*)	101.	(*a*)	102.	(*a*)	103.	(*a*)	104.	(*b*)	105.	(*d*)
106.	(*b*)	107.	(*a*)	108.	(*c*)	109.	(*a*)	110.	(*c*)	111.	(*b*)	112.	(*d*)
113.	(*b*)	114.	(*c*)	115.	(*b*)	116.	(*d*)	117.	(*c*)	118.	(*d*)	119.	(*b*)
120.	(*d*)	121.	(*a*)	122.	(*d*)	123.	(*b*)	124.	(*c*)	125.	(*b*)	126.	(*c*)
127.	(*d*)	128.	(*a*)	129.	(*c*)	130.	(*a*)	131.	(*b*)	132.	(*c*)	133.	(*a*)
134.	(*c*)	135.	(*c*)	136.	(*d*)	137.	(*a*)	138.	(*a*)	139.	(*c*)	140.	(*d*)
141.	(*b*)	142.	(*b*)	143.	(*a*)	144.	(*d*)	145.	(*b*)	146.	(*d*)	147.	(*d*)
148.	(*a*)	149.	(*a*)	150.	(*a*)	151.	(*b*)	152.	(*a*)	153.	(*b*)	154.	(*a*)
155.	(*c*)	156.	(*a*)	157.	(*d*)	158.	(*a*)	159.	(*c*)	160.	(*a*)	161.	(*a*)
162.	(*d*)	163.	(*d*)	164.	(*c*)	165.	(*d*)	166.	(*c*)	167.	(*b*)	168.	(*b*)
169.	(*d*)	170.	(*d*)	171.	(*d*)	172.	(*b*)	173.	(*a*)	174.	(*c*)	175.	(*d*)
176.	(*c*)	177.	(*b*)	178.	(*a*)	179.	(*d*)	180.	(*b*)	181.	(*c*)	182.	(*d*)
183.	(*a*)	184.	(*b*)	185.	(*c*)	186.	(*a*)	187.	(*b*)	188.	(*a*)	189.	(*b*)
190.	(*c*)	191.	(*c*)	192.	(*d*)	193.	(*a*)	194.	(*b*)	195.	(*c*)	196.	(*d*)
197.	(*a*)	198.	(*a*)	199.	(*b*)								

Hints of selected questions

2. The primary functions of money are medium of exchange & measure of value. Whereas the secondary functions are standard of Deferred Payment & store of value.

3. Money is regarded as a "Unit of Account" because it helps in calculating relative prices of goods and services.

6. Money should be difficult to counterfeit *i.e.* not easily reproducible by people.

7. In case of full-bodied money, the money value is equal to commodity value for example: During the British period, one rupee coin was made of silver. The face value (*i.e.* value written on unit of currency) was rupee one. The intrinsic value (*i.e.* the value of the metal contained in the unit of money) was also Rupee one. In other words, the value of coin as money was same as its value as a commodity.

8. In India, coins are limited legal tender. As per Coinage Act, 2011, coins shall be a legal tender in case of coin of any denomination not lower than one rupee, for any sum not exceeding ₹ 1,000.

18. It is directly proportional because higher the income of individuals, higher the expenditure; richer people hold more money to finance their expenditure.

21. The opportunity cost of holding money is the interest rate a person could earn an other assets. Therefore, higher the interest rate, higher would be opportunity cost of holding cash and lower the demand for money. Thus, there is inverse relationship between the two.

45. Prof. J.M. Keynes considered the aggregate demand for money for transaction purposes as the sum of individual demand. Therefore, the aggregate transaction demand for money is a function of national income.

53. Because a rise in the market rate of interest leads to a decrease in the market value of the bond, and *vice-versa*.

57. When interest is zero, people would not want to hold any bonds, since money, which also pays zero per cent interest, has the advantage of being usable in transactions.

59. In the situation of liquidity trap, the opportunity cost of holding money is zero. Therefore, even if the monetary authority increases money supply to stimulate the economy, people would prefer to hoard money. Consequently, excess funds may not be converted into new investment. Thus, liquidity trap is synonymous with ineffective monetary policy.

79. Money Supply does not include stock of money held by the Government as well as banking system of country because they are suppliers of money & money held by then is not treated as part of money supply.

109-111:

M_1 = Currency with Public + Demand Deposits with banking system + Other deposit with RBI
= 45,000 + 1,00,000 + 1,40,000
= ₹ 2,85,000 crores

M_2 =	M_1 + Saving deposit with Post Office Saving Banking	
	= 2,85,000 + 30,000 = ₹ 3,15,000 crores	
M_3 =	M_1 + Time Deposit with the Banking System	
	= 2,85,000 + 1,10,000	
	= ₹ 3,95,000 crores	

112. Currency with the Public

= 26,09,005 + 40,715 + 1,080 – 99,200

= ₹ 25,51,600 crores

113.

M_2 = M_1 + Post Office Saving Bank Deposits

⇒ Post Office Saving Bank Deposit = $M_2 - M_1$

= 44,42,695 – 42,90,550

= ₹ 1,52,145 crores

114 to 116

1.	Time Deposits with the Banking System = $M_3 - M_1$ = 5,90,000 – 4,85,000 = ₹ 1,05,000
2.	Saving deposits with Post Office Saving Banks = $M_2 - M_1$ = 5,50,000 – 4,85,000 = ₹ 65,000
3.	Total Deposits with the Post Office Saving Organisation (excluding National Saving Certificate) = $M_4 - M_3$ = 6,24,000 – 5,90,000 = ₹ 34,000

117.

Step 1	M_3 =	M_4 – Total Deposits with the Post Office Saving Organisation (Excl. NSC)
	=	4,41,260 – 31,245 = ₹ 4,10,015 cr.
Step 2	M_1 =	M_3 – Time Deposits with the Banking System
	=	4,10,015 – 65,315 = ₹ 3,44,700 cr.
Step 3	M_2 =	M_1 + Saving deposits with Post Office Saving Bank
	=	3,44,700 + 41,200 = ₹ 3,85,900 cr.

119 to 121.

M_1 =	24,20,964 + 25,572 + 743 – 97,563 + 17,76,199 = ₹ 41,25,915
M_2 =	41,25,915 + 1,41,786 = ₹ 42,67,701
M_3 =	41,25,915 + 1,78,694 = ₹ 43,04,609

128.

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserved Ratio}}$$

$$= \frac{1}{0.10} = 10$$

$$\text{Credit Creation} = \text{Initial Deposits} \times \frac{1}{\text{Required Reserve ratio}}$$

$$= ₹\,2,00,000 \times \frac{1}{0.10}$$

$$= ₹\,20,00,000$$

129.

$$\text{Credit Creation} = \text{Initial Deposits} \times \text{Credit Multiplier}$$

$$\text{Credit Multiplier} = \frac{\text{Credit Creation}}{\text{Initial Deposits}} = \frac{40,00,000}{5,00,000} = 8$$

$$\text{Credit Multiplier} = \frac{1}{\text{RRR}}$$

$$\text{RRR} = \frac{1}{\text{Credit Multiplier}} = \frac{1}{8} = 0.125 \text{ or } 12.5\%$$

136.

Money Supply (M) = Currency + Deposits
= ₹ 400 + ₹ 1000 = ₹ 1400 Billion

$$\text{Currency-deposit ratio} = \frac{\text{Currency}}{\text{Deposits}}$$

$$= \frac{₹\,400}{₹\,1,000} = 0.4$$

$$e = \frac{\text{Excess Reserves}}{\text{Deposits}} = \frac{₹\,1\text{ Billion}}{₹\,1000\text{ Billion}} = 0.001$$

$$\text{Multiplier} = \frac{1+c}{r+e+c} = \frac{1+0.4}{0.1+0.001+0.4}$$

$$= \frac{1.5}{0.501} = 2.79$$

Therefore, a 1 unit increase in MB leads to 2.79 units increase in M.

141. If interest rate increases, the opportunity cost of holding excess reserves rises, and the desired ratio of excess reserves to deposits falls.

150. When bank deposits are being converted into currency, banks can create only less credit money. The overall level of multiple-expansion declines, and therefore, money multiplier also falls. Hence, money multiplier and the money supply are negatively related to currency ratio (c).

153. If the required reserve ratio on demand deposits increases while all the other variables remain the same, more reserves would be needed. This implies that banks must contract their loans, causing a decline in deposits and hence in the money supply.

154. $m = \frac{1+c}{r+e+c}$

r and m are negatively related. When r rises, m falls and when r falls, m rises. The reason is that less multiple deposit creation can occur when r rises, while more multiple deposit creation can occur when r falls.

160. When lending is made under WMA/OD, it results in the generation of excess reserves (*i.e.* excess balances of commercial banks with the Reserve Bank). The excess reserves thus created can potentially lead to an increase in money supply through the money multiplier process.

162.

$$\text{Credit Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{20\%} = \frac{1}{0.20} = 5$$

166.

Required Reserve Ratio = 10% or 0.10

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.1} = 10$$

Total Deposit = Initial Deposit × Money Multiplier

= 800 × 10

= ₹ 8000 crores.

167.

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$= \frac{1}{0.125} = 8$$

Total Deposit Created = ₹ 16,800

$$\text{Initial Deposits} = \frac{\text{Total Deposits}}{\text{Money Multiplies}} = \frac{16{,}800}{8}$$

= ₹ 2100 crores.

168.

$$\text{Money Multiplier} = \frac{\text{Total Deposit}}{\text{Initial Deposits}} = \frac{12{,}168}{1{,}521} = 8$$

$$\text{Money Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$$

$$\text{Required Reserve Ratio} = \frac{1}{\text{Money Multiplier}}$$

$$= \frac{1}{8} = 0.125$$

$$= 12.5\%$$

181. Option (*c*) is incorrect because Quantitative controls are designed to regulate the total volume of credit whereas qualitative controls are designed to regulate the direction of credit.

182. Margin requirements is one of the qualitative method adopted by RBI as a part of credit control instrument.

183. Sale of securities by central bank reduces the reserves of commercial banks. It adversely affects the bank's ability to create credit and therefore decreases the money supply in the economy.

187. The option (*b*) is incorrect because qualitative instruments are specific in nature *i.e.* they affect the flow of credit for a particular use.

188. The open market operation is a part of quantitative method.