## Chapter Trend Analysis

### Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions

**THE GRAPH**






| CHAPTER | MONEY MARKET |
|---|---|
| **8.1** | **The Concept of Money Demand: Important Theories** |

| 1. Introduction | | | | | |
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| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
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| 2. The Demand for Money | | | | | |
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| 3. Theories of Demand for money | | | | | |
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| 4. Post-Keynesian Developments in the Theory of Demand for Money | | | | | |
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| 5. Conclusion | | | | | |
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## MODEL QUESTIONS

### 1.1 Introduction

1. What is the concept of money demand in economic?
   (a) It refers to the quantity of money supplied by the central bank.
   (b) It refers to the desire of individuals and businesses to hold money for transactions and speculative purposes.
   (c) It refers to the quantity of money demanded by the government for its expenditures.
   (d) It refers to the total money supply in the economy.
2. What does the speculative motive for holding money suggest?
   (a) Individuals hold money to finance their day-to-day expenses.
   (b) Individuals hold money as a store of value to preserve wealth.
   (c) Individuals hold money to speculate on the future direction of interest rates.
   (d) Individuals hold money to invest in financial assets.
3. Which of the following is NOT a component of the demand for money?
   (a) Transaction motive (b) Speculative motive
   (c) Precautionary motive (d) Investment motive
4. What is the transaction motive for holding money?
   (a) It refers to holding money to speculate on future price changes in financial assets.
   (b) It refers to holding money for future investment opportunities.
   (c) It refers to holding money to finance day-to-day transactions and purchases.
   (d) It refers to holding money to preserve wealth.
5. How does an increase in interest rates affect the demand for money?
   (a) An increase in interest rates decreases the demand for money.
   (b) An increase in interest rates increases the demand for money.
   (c) An increase in interest rates has no impact on the demand for money.
   (d) An increase in interest rates reduces the money supply.
6. The demand for money arises primarily from its function as a:
   (a) Store of value (b) Medium of exchange
   (c) Unit of account (d) Commodity
7. According to the quantity theory of money, the demand for money is directly proportional to:
   (a) The price level (b) The rate of inflation
   (c) The level of real income (d) The interest rate
8. he Keynesian theory of money demand suggests that the demand for money is influenced by:
   (a) The money supply
   (b) The interest rate
   (c) Consumer confidence
   (d) Government expenditure
9. The speculative motive for holding money is based on the expectation of:
   (a) High interest rates in the future
   (b) Low inflation rates
   (c) A decrease in the money supply
   (d) A rise in asset prices
10. The transaction motive for holding money is related to the need for money to conduct:
    (a) Speculative investments
    (b) Everyday transactions and payments
    (c) International trade
    (d) Long-term savings

### Fiat Money

1. What is fiat money?
   (a) Money that has intrinsic value based on its physical properties.
   (b) Money that is backed by a commodity, such as gold or silver.
   (c) Money that is declared legal tender by the government and has no intrinsic value.
   (d) Money that is used for online transactions and digital payments.

2. What gives value to fiat money?
   (a) Its acceptance by the international community.
   (b) Its backing by a commodity, such as gold.
   (c) Its supply and demand in the foreign exchange market.
   (d) The trust and confidence of the people in the government and the economy.
3. Which of the following statements is true about fiat money?
   (a) Fiat money has intrinsic value based on its physical properties.
   (b) Fiat money is backed by a commodity, such as gold.
   (c) Fiat money is not subject to inflationary pressures.
   (d) Fiat money is susceptible to hyperinflation if not properly managed.
4. What distinguishes fiat money from commodity money?
   (a) Commodity money is declared legal tender by the government, while fiat money has intrinsic value.
   (b) Commodity money is backed by a commodity, while fiat money has no intrinsic value.
   (c) Commodity money is used for online transactions, while fiat money is physical currency.
   (d) Commodity money is widely accepted internationally, while fiat money is limited to domestic use.
5. How does fiat money facilitate transactions in an economy?
   (a) By providing a medium of exchange without any value.
   (b) By allowing barter exchanges between goods and services.
   (c) By serving as a store of value based on its intrinsic worth.
   (d) By acting as a widely accepted medium of exchange with government backing.

## 1.2 Theories of Demand for Money

1. Which theory of demand for money suggests that people hold money for transactions, precautionary, and speculative motives?
   (a) Classical Quantity Theory of Money
   (b) Keynesian Liquidity Preference Theory
   (c) Cambridge Cash-Balance Theory
   (d) Quantity Theory of Money



2. According to the Keynesian Liquidity Preference Theory, what determines the demand for money?
   (a) The price level and the level of income in the economy.
   (b) The interest rate and the level of investment in the economy.
   (c) The rate of inflation and the government's fiscal policy.
   (d) The exchange rate and the country's foreign trade.
3. Which theory of demand for money suggests that people hold money to take advantage of potential changes in interest rates?
   (a) Cambridge Cash-Balance Theory
   (b) Quantity Theory of Money
   (c) Classical Quantity Theory of Money
   (d) Keynesian Liquidity Preference Theory
4. According to the Cambridge Cash-Balance Theory, what is the relationship between the demand for money and the interest rate?
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) There is no relationship between the demand for money and the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.
5. Which theory of demand for money focuses on the long-run relationship between money demand and income?
   (a) Keynesian Liquidity Preference Theory
   (b) Quantity Theory of Money
   (c) Classical Quantity Theory of Money
   (d) Cambridge Cash-Balance Theory
6. The demand for money is a function of:
   (a) The money supply (b) The interest rate
   (c) The inflation rate (d) All of the above
7. The demand for money for transactions is influenced by:
   (a) Future expectations of interest rates
   (b) Consumer preferences for holding money
   (c) The level of income and economic activity
   (d) Speculative investments

8. The precautionary motive for holding money arises from the need to:
   (a) Conduct day-to-day transactions
   (b) Make speculative investments
   (c) Save for future emergencies and uncertainties
   (d) Avoid inflation
9. According to the Keynesian theory, an increase in the interest rate will lead to:
   (a) An increase in the demand for money
   (b) A decrease in the demand for money
   (c) No change in the demand for money
   (d) An increase in the money supply
10. The speculative motive for holding money is driven by expectations of:
   (a) High inflation rates
   (b) Low interest rates in the future
   (c) A decrease in the money supply
   (d) Economic stability

### 1.2.1 Classical Approach: The Quantity Theory of Money (QTM)

1. According to the Classical Quantity Theory of Money (QTM), what is the primary determinant of the price level in an economy?
   (a) The level of income and output.
   (b) The quantity of money in circulation.
   (c) The interest rate set by the central bank.
   (d) The level of government spending.
2. The Classical Quantity Theory of Money (QTM) assumes which of the following?
   (a) Stable velocity of money.
   (b) Variable money demand.
   (c) Inverse relationship between money supply and price level.
   (d) Constant level of economic output.
3. According to the Classical Quantity Theory of Money (QTM), what happens if the money supply increases while other factors remain unchanged?



   (a) Prices and output will both increase proportionally.
   (b) Prices will increase proportionally, but output remains unchanged.
   (c) Output will increase proportionally, but prices remain unchanged.
   (d) Prices and output will both remain unchanged.
4. How does the Classical Quantity Theory of Money (QTM) view the relationship between rnoney supply and inflation?
   (a) An increase in the money supply leads to deflation.
   (b) An increase in the money supply has no impact on inflation.
   (c) An increase in the money supply leads to inflation.
   (d) An increase in the money supply leads to stagflation.
5. What does the equation MV = PT represent in the context of the Classical Quantity Theory of Money (QTM)?
   (a) The relationship between money supply and interest rates.
   (b) The relationship between money supply and economic output.
   (c) The relationship between money supply and the price level.
   (d) The relationship between money supply and the velocity of money.

### 1.2.2 The Cambridge approach

1. What is the Cambridge Approach in the context of the demand for money?
   (a) It is a theory that focuses on the speculative motive for holding money.
   (b) It is a theory that emphasizes the transaction motive for holding money.
   (c) It is a theory that considers both the transaction and precautionary motives for holding money.
   (d) It is a theory that rejects the relevance of money demand in the economy.
2. According to the Cambridge Approach, what is the key factor that influences the demand for money?
   (a) The interest rate set by the central bank.
   (b) The price level and the level of income in the economy.
   (c) The rate of inflation and the level of government spending.
   (d) The exchange rate and the country's foreign trade.

3. How does the Cambridge Approach view the relationship between the demand for money and the interest rate?
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) There is no relationship between the demand for money and the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.
4. What does the Cambridge Equation, Md = kPY, represent?
   (a) The demand for money (Md) is equal to the price level (P) multiplied by the income level (Y).
   (b) The demand for money (Md) is equal to the money supply (M) multiplied by the velocity of money (V).
   (c) The demand for money (Md) is equal to the interest rate (r) divided by the price level (P).
   (d) The demand for money (Md) is equal to the level of government spending (G) divided by the price level (P).
5. What does the parameter 'k' in the Cambridge Equation Md = kPY signify?
   (a) The money supply in the economy.
   (b) The velocity of money.
   (c) The interest rate set by the central bank.
   (d) The proportion of income held as money.

### 1.2.3 The Keynesian Theory of Demand for Money

1. According to the Keynesian Theory of Demand for Money, what are the primary motives for holding money?
   (a) Transaction motive and speculative motive.
   (b) Precautionary motive and speculative motive.
   (c) Transaction motive and precautionary motive.
   (d) Transaction motive, precautionary motive, and speculative motive.



2. What does the transaction motive for holding money refer to in the Keynesian Theory?
   (a) Holding money for future investment opportunities.
   (b) Holding money to speculate on future price changes in financial assets.
   (c) Holding money to preserve wealth and protect against uncertainties.
   (d) Holding money to finance day-to-day transactions and purchases.
3. According to the Keynesian Theory of Demand for Money, what happens to the demand for money if there is an increase in income?
   (a) The demand for money increases.
   (b) The demand for money decreases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is determined solely by changes in the money supply.
4. How does the Keynesian Theory of Demand for Money view the relationship between the demand for money and the interest rate?
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) There is no relationship between the demand for money and the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.
5. How does the Keynesian Theory of Demand for Money explain the preference for holding money in liquid form?
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.

### (a) The Transactions Motive

1. What does the "Transactions Motive" for holding money refer to?
   (a) Holding money to preserve wealth and protect against uncertainties.
   (b) Holding money to take advantage of potential changes in the value of financial assets.
   (c) Holding money for speculative purposes.
   (d) Holding money to finance day-to-day transactions and purchases.
2. According to the Transactions Motive, what happens to the demand for money when the frequency of transactions increases?
   (a) The demand for money decreases.
   (b) The demand for money increases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is solely determined by changes in the money supply.
3. How does the Transactions Motive explain the need for holding money in liquid form?
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.
4. Which of the following situations would lead to an increase in the demand for money due to the Transactions Motive?
   (a) A decrease in the level of economic activity.
   (b) An increase in the use of credit cards for transactions.
   (c) A decrease in the price level.
   (d) An increase in the interest rates.
5. How does the Transactions Motive influence the velocity of money in an economy?
   (a) It increases the velocity of money.
   (b) It decreases the velocity of money.
   (c) It has no impact on the velocity of money.
   (d) It leads to unpredictable changes in the velocity of money.

### (b) The Precautionary Motive

1. What does the "Precautionary Motive" for holding money refer to?
   (a) Holding money to preserve wealth and protect against uncertainties.
   (b) Holding money to take advantage of potential changes in the value of financial assets.
   (c) Holding money for speculative purposes.
   (d) Holding money to finance day-to-day transactions and purchases.
2. According to the Precautionary Motive, what happens to the demand for money when individuals become more risk-averse?
   (a) The demand for money increases.
   (b) The demand for money decreases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is solely determined by changes in the money supply.
3. How does the Precautionary Motive explain the preference for holding money in liquid form?
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.
4. Which of the following situations would lead to an increase in the demand for money due to the Precautionary Motive?
   (a) A decrease in the level of economic uncertainty.
   (b) An increase in the availability of credit facilities.
   (c) An increase in disposable income.
   (d) An increase in economic stability.
5. How does the Precautionary Motive influence the allocation of wealth between money and other financial assets?
   (a) It encourages a higher allocation of wealth to money.
   (b) It encourages a lower allocation of wealth to money.
   (c) It has no impact on the allocation of wealth.
   (d) It leads to unpredictable changes in wealth allocation.

### (c) The Speculative Demand for Money

1. What does the "Speculative Demand for Money" refer to?
   (a) Holding money to preserve wealth and protect against uncertainties.
   (b) Holding money to take advantage of potential changes in the value of financial assets.
   (c) Holding money for day-to-day transactions and purchases.
   (d) Holding money to avoid the risk of illiquidity.
2. According to the Speculative Demand for Money, what happens to the demand for money when individuals expect interest rates to rise in the future?
   (a) The demand for money increases.
   (b) The demand for money decreases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is solely determined by changes in the money supply.
3. How does the Speculative Demand for Money explain the preference for holding money in liquid form?
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.
4. Which of the following situations would lead to an increase in the demand for money due to the Speculative Demand for Money?
   (a) Expectations of a decrease in interest rates.
   (b) Expectations of a decrease in the value of financial assets.
   (c) Expectations of a decrease in inflation.
   (d) Expectations of an economic boom.
5 How does the Speculative Demand for Money influence the allocation of wealth between money and other financial assets?
   (a) It encourages a higher allocation of wealth to money.
   (b) It encourages a lower allocation of wealth to money.
   (c) It has no impact on the allocation of wealth.
   (d) It leads to unpredictable changes in wealth allocation.



### 1.3 Post-Keynesian Developments in the Theory of Demand for Money

1. What are the key Post-Keynesian developments in the theory of demand for money?
   (a) Quantity Theory of Money and Fisher's Equation of Exchange.
   (b) Cambridge Approach and Keynesian Liquidity Preference Theory.
   (c) Speculative Demand for Money and Transactions Demand for Money.
   (d) Endogenous Money Theory and Horizontalist Theory.
2. How does the Post-Keynesian approach differ from the Keynesian Theory of Demand for Money?
   (a) Post-Keynesian approach focuses on the speculative motive, while Keynesian Theory emphasizes the transactions motive.
   (b) Post-Keynesian approach emphasizes the speculative motive, while Keynesian Theory focuses on the precautionary motive.
   (c) Post-Keynesian approach considers money supply as endogenous, while Keynesian Theory treats it as exogenous.
   (d) Post-Keynesian approach considers money supply as exogenous, while Keynesian Theory treats it as endogenous.
3. According to the Post-Keynesian view, how does the demand for money relate to the interest rate?
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) The demand for money is not influenced by changes in the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.
4. How does the Post-Keynesian approach view the role of banks in the money creation process?
   (a) Banks play a passive role and cannot influence the money supply.
   (b) Banks can actively control the money supply through their lending decisions.
   (c) Banks are solely responsible for determining the quantity of money in circulation.
   (d) The money supply is determined independently of banks' actions.

5. According to the Post-Keynesian perspective, what drives the demand for money in an economy?
   (a) Changes in the level of income and interest rates.
   (b) Changes in the price level and exchange rates.
   (c) Changes in the government's fiscal policy.
   (d) Changes in the money supply by the central bank.
6. Post-Keynesian economists argue that the demand for money is primarily determined by:
   (a) The interest rate
   (b) The level of income and economic activity
   (c) Future expectations of inflation
   (d) Government policies
7. According to post-Keynesian views, the speculative demand for money is related to people's desire to:
   (a) Hold liquid assets for convenience
   (b) Invest in stocks and bonds
   (c) Avoid holding money due to inflation
   (d) Minimize transaction costs
8. In the post-Keynesian approach, the precautionary demand for money is driven by the need to have sufficient funds for:
   (a) Speculative purposes
   (b) Everyday transactions
   (c) Emergency situations and uncertainties
   (d) Long-term savings
9. Post-Keynesian economists argue that the demand for money can be affected by changes in:
   (a) Government expenditures
   (b) The money supply
   (c) Interest rates
   (d) All of the above
10. The liquidity preference theory, developed by John Maynard Keynes, emphasizes that the demand for money depends on:
    (a) The nominal interest rate
    (b) The real interest rate
    (c) Future expectations of inflation
    (d) Both (a) and (b)



### 1.3.1 Inventory Approach to Transaction Balances

1. What does the Inventory Approach to Transaction Balances refer to?
   (a) Holding money as a precautionary measure to cover future uncertainties.
   (b) Holding money to take advantage of potential changes in the value of financial assets.
   (c) Holding money to facilitate day-to-day transactions based on the desired frequency of purchases.
   (d) Holding money as an inventory to manage cash flows in a business.
2. According to the Inventory Approach, how does the size of a firm's cash balance relate to the desired level of transactions?
   (a) The cash balance is unrelated to the desired level of transactions.
   (b) The cash balance is always equal to the desired level of transactions.
   (c) The cash balance is determined by the desired level of transactions.
   (d) The cash balance is inversely related to the desired level of transactions.
3. How does the Inventory Approach explain the opportunity cost of holding cash?
   (a) Holding cash incurs no opportunity cost.
   (b) The opportunity cost of holding cash is equal to the interest rate.
   (c) The opportunity cost of holding cash is equal to the potential returns from investment.
   (d) The opportunity cost of holding cash is equal to the inflation rate.
4. What is the primary focus of the Inventory Approach in managing transaction balances?
   (a) Maximizing cash holdings to ensure liquidity at all times.
   (b) Minimizing cash holdings to reduce the opportunity cost.
   (c) Optimizing cash holdings to strike a balance between liquidity and opportunity cost.
   (d) Ignoring cash balances and relying on credit for transactions.

5. How does the Inventory Approach view the holding of marketable securities as part of transaction balances?
   (a) Marketable securities are considered part of the firm's cash balance.
   (b) Marketable securities are seen as a separate investment category unrelated to transaction balances.
   (c) Marketable securities are considered part of the firm's inventory of goods for sale.
   (d) Marketable securities are viewed as a liability for the firm.

### 1.3.2 Friedman's Restatement of the Quantity Theory

1. What is the key proposition of Friedman's Restatement of the Quantity Theory of Money?
   (a) Money supply has a significant impact on aggregate demand and economic output.
   (b) Inflation is primarily determined by changes in the money supply.
   (c) Velocity of money is constant in the long run.
   (d) Fiscal policy is more effective than monetary policy in stabilizing the economy.
2. According to Friedman, what role does velocity of money play in the Quantity Theory of Money?
   (a) Velocity of money is constant and has no impact on inflation.
   (b) Velocity of money is volatile and leads to frequent changes in inflation.
   (c) Velocity of money is a key determinant of inflation.
   (d) Velocity of money is irrelevant in explaining inflation.
3. According to Friedman, what is the primary cause of business cycles?
   (a) Fluctuations in government spending.
   (b) Changes in aggregate demand due to money supply changes.
   (c) Shocks in the financial markets.
   (d) Technological advancements.



4. How does Friedman view the role of monetary policy in controlling inflation?
   (a) Monetary policy is ineffective in controlling inflation.
   (b) Monetary policy is the primary tool to control inflation.
   (c) Fiscal policy is more effective than monetary policy in controlling inflation.
   (d) Controlling inflation is beyond the scope of monetary policy.
5. What is the main criticism of Friedman's Restatement of the Quantity Theory of Money?
   (a) It ignores the impact of fiscal policy on the economy.
   (b) It assumes that velocity of money is constant, which is not always the case.
   (c) It does not consider the role of financial markets in influencing inflation.
   (d) It underestimates the importance of changes in the money supply on inflation.
6. Milton Friedman's restatement of the quantity theory of money emphasized that the demand for money depends on:
   (a) The level of income and economic activity
   (b) The interest rate
   (c) Future expectations of inflation
   (d) Both a) and b)
7. According to Friedman, changes in the quantity of money affect:
   (a) Interest rates only
   (b) Price levels only
   (c) Both interest rates and price levels
   (d) Exchange rates
8. Friedman's restatement suggested that in the long run, changes in the quantity of money primarily influence:
   (a) Real economic variables such as output and employment
   (b) Nominal economic variables such as the price level
   (c) Government fiscal policies
   (d) International trade and capital flows

9. Friedman argued that central banks should focus on:
   (a) Controlling the money supply to stabilize the economy
   (b) Manipulating interest rates to influence investment
   (c) Implementing exchange rate policies to boost exports
   (d) Directly managing government expenditures and taxation
10. According to Friedman, excessive inflation is primarily caused by:
   (a) An increase in government spending
   (b) Excessive growth in the money supply
   (c) Fluctuations in exchange rates
   (d) A decrease in interest rates

### 1.3.3 The Demand for Money as Behaviour toward Risk

1. What does the "Demand for Money as Behavior toward Risk" refer to
   (a) Holding money as a precautionary measure to cover future uncertainties.
   (b) Holding money to take advantage of potential changes in the value of financial assets.
   (c) Holding money based on risk aversion and the desire to avoid holding risky assets.
   (d) Holding money as an inventory to manage cash flows in a business.
2. According to the Demand for Money as Behavior toward Risk, what happens to the demand for money when individuals become more risk-averse?
   (a) The demand for money increases.
   (b) The demand for money decreases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is solely determined by changes in the money supply.
3. How does the Demand for Money as Behavior toward Risk explain the preference for holding money in liquid form?
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.



4. Which of the following situations would lead to an increase in the demand for money due to the Demand for Money as Behavior toward Risk?
   (a) An increase in economic stability.
   (b) A decrease in the availability of credit facilities.
   (c) A decrease in disposable income.
   (d) A decrease in the perceived level of financial risk.
5. How does the Demand for Money as Behavior toward Risk influence the allocation of wealth between money and other financial assets?
   (a) It encourages a higher allocation of wealth to money.
   (b) It encourages a lower allocation of wealth to money.
   (c) It has no impact on the allocation of wealth.
   (d) It leads to unpredictable changes in wealth allocation.
6. The demand for money as behavior toward risk suggests that individuals may hold more money when they:
   (a) Have higher income levels
   (b) Expect future inflation
   (c) Perceive higher uncertainty or risk in the economy
   (d) Expect interest rates to decrease
7. In the context of the demand for money as behavior toward risk, holding money provides individuals with a sense of:
   (a) Liquidity and flexibility
   (b) Long-term investment opportunities
   (c) Tax advantages
   (d) Higher returns compared to other assets
8. According to the demand for money as behavior toward risk, during times of economic instability or crisis, people tend to:
   (a) Increase their spending
   (b) Invest more in the stock market
   (c) Hold more money as a safe asset
   (d) Borrow heavily from banks
9. The demand for money as behavior toward risk is closely related to the concept of:
   (a) Risk aversion
   (b) Speculative motives
   (c) Precautionary motives
   (d) Money multipliers

10. As a risk-averse individual expects higher uncertainty in the future, the demand for money:
    (a) Increases
    (b) Decreases
    (c) Remains constant
    (d) Becomes dependent on government policies

## ANSWER

### 1.1 Introduction

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (c) | (d) | (c) | (a) | (b) | (c) | (b) | (a) | (b) |

### Fiat Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (d) | (d) | (b) | (d) | | | | | |

### 1.2 Theories of Demand for Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (a) | (d) | (b) | (d) | (d) | (c) | (c) | (b) | (b) |

### 1.2.1 Classical Approach: The Quantity Theory of Money (QTM)

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (a) | (b) | (c) | (c) | | | | | |

### 1.2.2 The Cambridge approach

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (b) | (b) | (a) | (d) | | | | | |

### 1.2.3 The Keynesian Theory of Demand for Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (d) | (a) | (b) | (c) | | | | | |

### (a) The Transactions Motive

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (b) | (d) | (b) | (a) | | | | | |

### (b) The Precautionary Motive

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (a) | (d) | (d) | (a) | | | | | |

### (c) The Speculative Demand for Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (b) | (c) | (b) | (a) | | | | | |

### 1.3 Post-Keynesian Developments in the Theory of Demand for Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (c) | (b) | (b) | (a) | (b) | (c) | (c) | (d) | (d) |

### 1.3.1 Inventory Approach to Transaction Balances

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (c) | (c) | (c) | (a) | | | | | |

### 1.3.2 Friedman's Restatement of the Quantity Theory

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (c) | (b) | (a) | (b) | (d) | (c) | (b) | (a) | (b) |

### 1.3.3 The Demand for Money as Behaviour toward Risk

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (a) | (d) | (d) | (a) | (c) | (a) | (c) | (a) | (a) |

## PAST YEAR QUESTIONS AND ANSWERS

### 2024 - JUNE

[1] Which of the following is fiat money?
(a) Gold coins
(b) Silver coins
(c) Currency notes
(d) Gold coins, silver coins as well as currency notes (1 mark)

**Answer:**
**(c)** Currency which is used exclusively by the sovereign or central bank as its representative is fiat money and is legal tender.

[2] The transactionary demand for money is directly proportional to and is a positive function of:
(a) Level of price (b) Level of income
(c) Level of demand (d) Level of interest rate (1 mark)

**Answer:**
**(b)** The transactionary demand is directly or positively related to level of income.

[3] People's desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure reflects_____.
(a) Transaction motive
(b) Speculative motive
(c) Precautionary motive
(d) Personal and business exchange (1 mark)



**Answer:**
**(b)** To Speculative demand for money (inverse function of rate of interest):
(a) People's desire to hold cash to exploit attractive investment opportunities requiring cash expenditure.
(b) People hold money balances to take advantage of future change in rate.
(c) It is implicit in Keynes' theory that rate of interest (i) is really the return on bonds.

[4] What does the concept of liquidity trap mean?
(a) Liquidity trap is a situation where the desire to hold bonds is very low and approaches O and demand to hold money in liquid form as an alternative approaches infinity
(b) Even if public fear adverse events then they prefer to hold only bonds at given rate of interest
(c) The speculative money demand curve is parallel to Y axis
(d) None of these (1 mark)

**Answer:**
**(a)** Liquidity trap is a situation in which investors would maintain cash savings rather than bonds.

### 2024 - SEPTEMBER

[1] Real money refers to:
(a) Money demanded at given rate of interest
(b) Real national income
(c) Nominal GNP divided by price level
(d) Nominal money adjusted to the price level (1 mark)

**Answer:**
**(d)** Nominal money adjusted to the price level.
Real money refers to the nominal money supply adjusted for the effects of inflation or changes in the price level. It reflects the purchasing power of money.

[2] Which of the following is NOT a function of money?
(a) Acting as a medium of exchange
(b) Providing a common measure of value
(c) Serving as a unit of account
(d) Easily reproducible by people (1 mark)

**Answer:**

**(d)** Easily reproducible by people.
Money should be difficult to reproduce to maintain its value and integrity. The other options acting as a medium of exchange, providing a common measure of value, and serving as a unit of account are all recognized functions of money.

[3] The concept of "aversion of risk" is propounded by:
(a) Milton Friedman
(b) James Tobin
(c) John Maynard Keynes
(d) Alfred Marshall (1 mark)

**Answer:**

**(b)** James Tobin.
James Tobin introduced the concept of risk aversion in the context of portfolio theory, emphasizing how investors prefer to avoid risk in their investment decisions.

## 2025 - JANUARY

[1] Which of the following is not a characteristic of money?
(a) Generally acceptable
(b) Effortlessly recognisable
(c) Easily transportable
(d) Easily reproducible by people (1 mark)

**Answer:**

**(d) Easily Reproducible by People**
**Explanation:**
Money should be difficult to counterfeit to maintain its value and trustworthiness. Therefore, the correct answer is: **(D) Easily reproducible by people.**



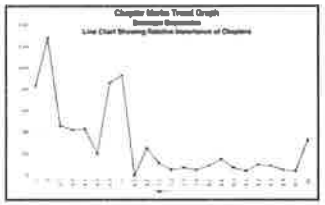
## 2025 - MAY

[1] What is the term Y represent in the expression Md = k PY ?
(a) Real National income (b) Price level
(c) Money supply (d) Interest rate (1 mark)

[2] Liquidity trap occurs when :
(a) Interest rates are high, and people prefer bonds over cash balances.
(b) Interest rates are near zero, and people prefer holding cash over bonds.
(c) Inflation rates are high, reducing purchasing power of money balances.
(d) Central banks increase CRR drastically. (1 mark)

[3] Which of the following is NOT one of the four determinants of the Friedman's demand for money ?
(a) Nominal Demand for money is a function of total wealth.
(b) It is positively related to price level P, if price level rises the demand for money increases.
(c) Nominal demand for money falls if the opportunity costs of money holding declines.
(d) Nominal Demand for money is influenced by inflation. (1 mark)

| Student Experience & Requests |
| --- |
| CA Foundation |
| Scan to Review & Request for More |

| Smart Study with Scanner | Chapter Marks Trend Graph |
| --- | --- |
|  | At page no. { ix }<br>• Graph of the total marks allocated to each chapter across multiple exams<br>• Analyzes trends to identify high-priority chapters<br>• Enables smarter revisions based on data-driven patterns |

Real-World Experiences
- Visit a local bank and discuss how interest rates influence money holding behavior.
- Interview individuals about their reasons for holding cash in different economic scenarios.
- Study the impact of digital payment systems on transaction money demand.
- Research how businesses manage liquidity to balance transaction and precautionary needs.

**Core Concepts**
- Define money demand and its role in the economy.
- Explain the three motives for money demand: transaction, precautionary, and speculative.
- Discuss the key theories of money demand: Classical Theory, Keynesian Liquidity Preference Theory, and Milton Friedman's Modern Quantity Theory of Money.
- Highlight the relationship between money demand, interest rates, and income levels.
- Introduce the concept of velocity of money and its implications for money demand.

Motivational Thoughts
- "Money isn't just a medium of exchange; it's a reflection of trust and demand."
- "Understanding money demand helps decode the behavior of consumers and businesses."
- "Theories of money demand guide policymakers in shaping financial stability."
- "Money demand is a mirror of how people value liquidity in an uncertain world."
- "Every decision to hold or spend money shapes the broader economy."

Checklist for Learning
- Memorize the three motives for holding money with real-world examples.
- Understand the differences between Classical, Keynesian, and Modern theories.
- Learn the factors influencing money demand: income, price levels, and interest rates.
- Study the graphical representation of money demand curves.
- Review how money demand affects monetary policy and economic stability.

## Chapter Trend Analysis

**THE GRAPH**

**Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions**






| CHAPTER | MONEY MARKET |
|---|---|
| **8.2** | **The Concept of Money Supply** |

| 1. Theories of Demand for money | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Jun | 1 | 2024-Sep | 3 | | |

| 2. The Sources of Money Supply | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Sep | 2 | 2025-Jan | 1 | 2025-Jan | 3 |

| 3. Measurement of Money Supply | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Jun | 1 | 2025-May | 3 | 2025-May | 4 |

| 4. The concept of Money Multiplier | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Jun | 3 | 2024-Sep | 1 | 2024-Sep | 4 |
| 2025-Jan | 2 | | | | |

| 5. The Money multiplier Approach to Supply of Money | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Sep | 5 | 2025-May | 2 | | |

| 6. Monetary Policy and Money supply | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2025-Jan | 6 | 2025-Jan | 7 | | |

| 7. Effect of Government Expenditure on Money Supply | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Jun | 2 | 2025-Jan | 4 | 2025-Jan | 5 |
| 2025-May | 1 | | | | |

## MODEL QUESTIONS

### 1.1 Introduction

1. What is the concept of "money supply" in economics?
   (a) The total amount of money held by an individual or household.
   (b) The total amount of money in circulation within an economy at a specific point in time.
   (c) The total amount of money that a government can print to finance its expenditures.
   (d) The total amount of money invested in financial assets, such as stocks and bonds.
2. Which of the following is considered "M1" in the classification of money supply?
   (a) Currency held by the public and demand deposits with banks.
   (b) Currency held by the public and time deposits with banks.
   (c) Currency held by the public, time deposits with banks, and savings deposits.
   (d) Currency held by the public, demand deposits with banks, and time deposits.
3. "M2" in the classification of money supply includes:
   (a) Currency held by the public and demand deposits with banks.
   (b) Currency held by the public, demand deposits with banks, and savings deposit with post office.
   (c) Currency held by the public, time deposits with banks, and savings deposits.
   (d) Currency held by the public, demand deposits with banks, and time deposits, along with certain money market instruments.
4. "Liquidity" in the context of money supply refers to:
   (a) The ease with which financial assets can be converted into money without loss of value.
   (b) The total amount of money in circulation within an economy.
   (c) The ability of banks to lend money to the government.
   (d) The amount of money that individuals and firms hold in their savings accounts.
5. How does an increase in the money supply affect inflation, according to the Quantity Theory of Money?
   (a) An increase in the money supply leads to deflation.
   (b) An increase in the money supply has no impact on inflation.
   (c) An increase in the money supply leads to inflation.
   (d) An increase in the money supply causes stagflation.
6. Money supply refers to:
   (a) The total amount of money held by individuals and businesses
   (b) The total value of goods and services produced in an economy
   (c) The total amount of money printed by the central bank
   (d) The total amount of money held in banks' reserves
7. Which of the following is considered a component of the money supply in most countries?
   (a) Government bonds
   (b) Corporate stocks
   (c) Currency (cash) in circulation
   (d) Real estate
8. The money supply includes which of the following types of money?
   (a) M1, M2, M3 (b) Physical currency only
   (c) Commercial bank reserves (d) Government bonds

9. M1 money supply includes:
   (a) Currency (cash) in circulation, demand deposits, and traveler's checks
   (b) Currency (cash) in circulation, time deposits, and savings accounts
   (c) Currency (cash) in circulation, government bonds, and corporate stocks
   (d) Currency (cash) in circulation, foreign exchange reserves, and gold holdings
10. The central bank has the most direct control over which component of the money supply?
   (a) M1 (b) M2
   (c) M3 (d) M4

### 1.2 Rationale of Measuring Money Supply

1. Why is it important for economists and policymakers to measure the money supply in an economy?
   (a) To determine the total value of goods and services produced in the economy.
   (b) To assess the overall level of economic growth and development.
   (c) To understand the availability of credit and loans for businesses and individuals.
   (d) To monitor the effectiveness of monetary policy and its impact on inflation and economic stability.
2. Which component of the money supply is the most liquid and serves as the medium of exchange in day-to-day transactions?
   (a) Physical currency (coins and notes) in circulation.
   (b) Demand deposits (checking accounts) held by the public.
   (c) Time deposits (fixed deposits) with commercial banks.
   (d) Government bonds and securities.
3. How does measuring the money supply help in assessing the liquidity of an economy?
   (a) A higher money supply indicates higher liquidity.
   (b) A lower money supply indicates higher liquidity.
   (c) Measuring money supply has no relation to assessing liquidity.
   (d) Liquidity is solely determined by the availability of credit facilities.



4. What does the concept of "monetary aggregates" refer to in the measurement of money supply?
   (a) The total value of all financial assets in an economy.
   (b) The total value of exports and imports in an economy.
   (c) The various measures of money supply used by central banks for policy purposes.
   (d) The total value of goods and services produced in an economy.
5. Why is M1 considered a narrow measure of money supply?
   (a) It includes only physical currency in circulation.
   (b) It includes physical currency and demand deposits but excludes time deposits.
   (c) It includes physical currency and time deposits but excludes demand deposits.
   (d) It includes all components of money supply, including physical currency, demand deposits, and time deposits.
6. The primary rationale for measuring money supply is to:
   (a) Track the profitability of banks
   (b) Monitor the flow of foreign exchange
   (c) Assess the health of the financial system
   (d) Understand the overall liquidity in the economy
7. Which of the following monetary aggregates includes only the most liquid forms of money?
   (a) M1 (b) M2
   (c) M3 (d) M4
8. The broader measures of money supply, such as M2 and M3, include:
   (a) Only physical currency (cash) in circulation
   (b) Currency (cash) in circulation and demand deposits
   (c) Currency (cash) in circulation, demand deposits, and time deposits
   (d) Currency (cash) in circulation and government bonds
9. Measuring money supply helps central banks in formulating and implementing:
   (a) Fiscal policies (b) Monetary policies
   (c) Trade policies (d) Industrial policies

10. The rationale for measuring money supply is to provide an indicator of:
    (a) The total value of goods and services produced in an economy
    (b) The level of government debt
    (c) The purchasing power of money
    (d) The availability of funds for spending and investment

### 1.3 The Sources of Money Supply

1. Which of the following is NOT considered a source of money supply in an economy?
    (a) Physical currency issued by the central bank.
    (b) Demand deposits held by commercial banks.
    (c) Government bonds and treasury bills.
    (d) Foreign currency reserves held by the central bank.
2. The primary source of money supply in an economy is:
    (a) Physical currency held by the public.
    (b) Currency issued by commercial banks.
    (c) Foreign currency reserves held by the central bank.
    (d) Demand deposits held by commercial banks.
3. What role does the central bank play in controlling the money supply?
    (a) The central bank has no control over the money supply.
    (b) The central bank can directly control the money supply through its policies.
    (c) The central bank can indirectly influence the money supply through interest rate adjustments.
    (d) The central bank can control only the currency component of the money supply.
4. What happens to the money supply when commercial banks increase their lending activities?
    (a) The money supply decreases.
    (b) The money supply remains unchanged.
    (c) The money supply increases.
    (d) The money supply fluctuates randomly.



5. Which of the following assets held by commercial banks is a component of the money supply?
    (a) Government bonds.
    (b) Corporate stocks.
    (c) Treasury bills.
    (d) Demand deposits.
6. The main source of money supply in an economy is:
    (a) Foreign exchange reserves
    (b) Government bonds
    (c) Central bank's monetary operations
    (d) Stock market investments
7. Which entity has the authority to create and regulate the money supply in most countries?
    (a) Commercial banks (b) Central banks
    (c) Investment banks (d) Foreign banks
8. The process by which commercial banks create money through lending and deposit creation is known as:
    (a) Fractional reserve banking (b) Currency issuance
    (c) Foreign exchange trading (d) Stock market manipulation
9. When the central bank buys government bonds from commercial banks, it leads to:
    (a) An increase in the money supply
    (b) A decrease in the money supply
    (c) No change in the money supply
    (d) An increase in interest rates
10. The money supply can also be affected by other non-bank financial institutions, such as:
    (a) Pension funds (b) Hedge funds
    (c) Insurance companies (d) All of the above

### 1.4 Measurement of Money Supply

1. Which of the following measures of money supply includes physical currency (coins and notes) in circulation and demand deposits with commercial banks?

(a) M0 (b) M1
(c) M2 (d) M3

2. Which component is included in M2 but not in M1 in the measurement of money supply?
   (a) Physical currency (coins and notes) in circulation.
   (b) Saving Deposit of post office savings bank.
   (c) Demand deposits (checking accounts) held by the public.
   (d) Foreign currency reserves held by the central bank.
3. Which of the following components is typically included in the measurement of M1 money supply?
   (a) Time deposits with commercial banks.
   (b) Treasury bills and government bonds.
   (c) Physical currency (coins and notes) in circulation.
   (d) Foreign currency reserves held by the central bank.
4. What is the primary objective of measuring money supply from the perspective of monetary policy?
   (a) To determine the fiscal deficit of the government.
   (b) To assess the overall health of the financial sector.
   (c) To track changes in the stock market.
   (d) To guide the formulation and implementation of monetary policy.
5. How does the central bank influence the money supply in the economy?
   (a) By controlling the government's budget deficit.
   (b) By adjusting interest rates and conducting open market operations.
   (c) By directly printing and issuing physical currency.
   (d) By regulating foreign currency transactions.
6. M1 money supply includes which of the following components?
   (a) Currency (cash) in circulation and demand deposits
   (b) Currency (cash) in circulation, demand deposits, and time deposits
   (c) Currency (cash) in circulation, demand deposits, time deposits, and savings deposits
   (d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves



7. M2 money supply is a broader measure and includes which of the following components?
   (a) Currency (cash) in circulation and demand deposits
   (b) Currency (cash) in circulation, demand deposits, and time deposits
   (c) Currency (cash) in circulation, demand deposits, and savings deposits
   (d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves
8. M3 money supply is an even broader measure and includes which of the following components?
   (a) Currency (cash) in circulation and demand deposits
   (b) Currency (cash) in circulation, demand deposits, and time deposits
   (c) Currency (cash) in circulation, demand deposits, time deposits, and savings deposits
   (d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves
9. Which of the following is not included in any of the measures of money supply (M1, M2, M3)?
   (a) Currency (cash) in circulation
   (b) Demand deposits
   (c) Time deposits (certificates of deposit)
   (d) Government bonds
10. The monetary aggregates M1, M2, and M3 are classified based on the:
   (a) Time periods for which the money is held
   (b) Size of the economy
   (c) Level of government debt
   (d) Liquidity of the components included

### 1.5 Determinants of Money Supply

1. Which of the following is NOT a determinant of money supply in an economy?
   (a) Monetary policy decisions of the central bank.
   (b) Reserve requirements set by the central bank.
   (c) Fiscal policy decisions of the government.
   (d) Open market operations conducted by commercial banks.

2. When the central bank reduces the reserve requirements for commercial banks, it will likely lead to:
   (a) An increase in the money supply.
   (b) A decrease in the money supply.
   (c) No change in the money supply.
   (d) An increase in the interest rates.
3. The main tool used by the central bank to directly control the money supply is:
   (a) Setting interest rates.
   (b) Conducting open market operations.
   (c) Adjusting reserve requirements.
   (d) Printing physical currency.
4. Which of the following is an example of an expansionary monetary policy that increases the money supply?
   (a) Raising the reserve requirements for commercial banks.
   (b) Selling government securities in the open market.
   (c) Lowering interest rates.
   (d) Decreasing government spending.
5. The government's budget deficit can indirectly impact the money supply through its effect on:
   (a) The level of economic growth,
   (b) The exchange rate of the national currency.
   (c) Inflation rate.
   (d) Central bank's open market operations.
6. The primary determinant of money supply in an economy is the:
   (a) Central bank's monetary policy
   (b) Government's fiscal policy
   (c) Exchange rate fluctuations
   (d) Foreign direct investment
7. When the central bank buys government bonds in the open market, it leads to:
   (a) An increase in the money supply
   (b) A decrease in the money supply
   (c) No change in the money supply
   (d) An increase in foreign exchange reserves



8. The reserve requirement set by the central bank for commercial banks is a determinant of money supply because it affects the banks':
   (a) Lending capacity and money creation
   (b) Profitability and interest rates
   (c) Foreign exchange holdings
   (d) Investment in government securities
9. The interest rate set by the central bank influences the money supply by affecting:
   (a) The level of government debt
   (b) Consumer spending patterns
   (c) Borrowing and lending behavior in the economy
   (d) Stock market prices
10. In the context of money supply, the term "monetary base" refers to:
   (a) The total amount of money held by individuals and businesses
   (b) The central bank's reserves and currency in circulation
   (c) The total value of goods and services produced in an economy
   (d) The overall value of stocks and bonds in the financial markets

### 1.6 The Concept of Money Multiplier

1. The money multiplier is defined as:
   (a) The rate at which the central bank prints new currency notes.
   (b) The ratio of money supply to the reserve requirements set by the central bank.
   (c) The ratio of the change in money supply to the change in interest rates.
   (d) The rate at which commercial banks create new money through lending.
2. How is the money multiplier calculated?
   (a) Money Multiplier = Change in Money Supply / Change in Interest Rates.
   (b) Money Multiplier = Reserve Ratio / Money Supply.
   (c) Money Multiplier = 1 / Reserve Ratio.
   (d) Money Multiplier = Change in Money Supply / Change in Reserve Ratio.

3. What happens to the money multiplier if the reserve requirements set by the central bank increase?
   (a) The money multiplier increases.
   (b) The money multiplier decreases.
   (c) The money multiplier remains unchanged.
   (d) The money multiplier becomes zero.
4. If the reserve ratio is 10%, what is the money multiplier?
   (a) 1.10 (b) 10
   (c) 0.10 (d) 0.90
5. The money multiplier process can lead to:
   (a) An increase in the money supply and economic growth.
   (b) A decrease in the money supply and economic contraction.
   (c) Inflation and higher interest rates.
   (d) A decrease in the reserve ratio.
6. The money multiplier is a concept that represents:
   (a) The ratio of government spending to tax revenue
   (b) The ratio of the money supply to the central bank's reserves
   (c) The ratio of government debt to GDP
   (d) The ratio of the fiscal deficit to GDP
7. The money multiplier indicates how much the money supply:
   (a) Increases when the central bank buys government bonds
   (b) Decreases when the central bank sells government bonds
   (c) Changes in response to changes in government expenditure
   (d) Responds to fluctuations in interest rates
8. The money multiplier is influenced by the:
   (a) Interest rate set by the central bank
   (b) Level of government debt
   (c) Size of the fiscal deficit
   (d) Central bank's reserve requirement for commercial banks
9. If the reserve requirement is 10%, the money multiplier would be:
   (a) 0.1
   (b) 1
   (c) 10
   (d) 100



10. The money multiplier process works based on the idea of:
    (a) Fractional reserve banking
    (b) Government bond purchases
    (c) Foreign exchange interventions
    (d) Currency printing

### 1.7 The Money Multiplier Approach to Supply of Money

1. The Money Multiplier Approach to the supply of money focuses on:
   (a) The direct control of money supply by the central bank.
   (b) The ability of commercial banks to create money through lending activities.
   (c) The impact of government spending on the money supply.
   (d) The relationship between money supply and interest rates.
2. The key determinant of the potential money supply expansion through the Money Multiplier Approach is:
   (a) The level of government spending.
   (b) The interest rates set by the central bank.
   (c) The reserve ratio set by the central bank.
   (d) The exchange rate of the domestic currency.
3. If the reserve ratio is 20%, what is the maximum potential money supply expansion if the central bank injects $1,000 of new reserves into the banking system?
   (a) $1,000
   (b) $2,000
   (c) $5,000
   (d) $10,000
4. If the central bank wishes to reduce the money supply, it can:
   (a) Decrease the reserve ratio. (b) Increase the reserve ratio.
   (c) Decrease the discount rate. (d) Increase the discount rate.
5. The Money Multiplier Approach assumes that:
   (a) The central bank directly controls the money supply.
   (b) Commercial banks do not lend out their excess reserves.
   (c) The velocity of money is constant.
   (d) The demand for money is determined by the interest rate.

6. The money multiplier approach explains how changes in the central bank's reserves can lead to changes in the:
   (a) Money supply (b) Government debt
   (c) Foreign exchange reserves (d) Interest rates
7. According to the money multiplier approach, an increase in the central bank's reserves will result in a _____ in the money supply.
   (a) Decrease (b) Stagnation
   (c) No change (d) Increase
8 The money multiplier is calculated as the reciprocal of the:
   (a) Reserve ratio (b) Inflation rate
   (c) Interest rate (d) Fiscal deficit
9. If the reserve ratio is 10%, the money multiplier would be:
   (a) 1 (b) 10
   (c) 0.1 (d) 100
10. The money multiplier approach assumes that commercial banks will use their excess reserves to:
   (a) Decrease interest rates
   (b) Increase government spending
   (c) Make speculative investments
   (d) Create new loans and deposits

**(a) The Behaviour of the Central Bank**

1. The primary objective of the central bank in India is to:
   (a) Control the money supply and inflation.
   (b) Regulate the stock market and financial institutions.
   (c) Control government spending and fiscal policy.
   (d) Promote international trade and investment.
2. Which of the following tools does the central bank of India use to control the money supply?
   (a) Setting interest rates on government bonds.
   (b) Conducting open market operations.
   (c) Setting limits on government spending.
   (d) Regulating foreign exchange rates.



3. The central bank's control over the money supply can impact the economy by:
   (a) Influencing economic growth and employment levels.
   (b) Controlling international trade and tariffs.
   (c) Determining the level of government debt.
   (d) Setting inflation targets for businesses.
4. How does the central bank's behavior influence interest rates in India?
   (a) By directly setting interest rates for commercial banks.
   (b) By controlling the foreign exchange rates.
   (c) By buying or selling government securities in the open market.
   (d) By setting limits on international trade.
5. The central bank of India uses monetary policy to:
   (a) Control government spending and fiscal policy.
   (b) Regulate the stock market and financial institutions.
   (c) Control the money supply and inflation.
   (d) Set interest rates for foreign investors.

**(b) The Behaviour of Commercial Banks**

1. The primary function of commercial banks in India is to:
   (a) Control the money supply and inflation.
   (b) Facilitate international trade and investment.
   (c) Accept deposits from the public and provide loans and advances.
   (d) Regulate the stock market and financial institutions.
2. When a commercial bank receives a deposit from a customer, it is recorded as a liability on the bank's balance sheet because:
   (a) The bank is obligated to pay interest on the deposit.
   (b) The deposit represents a claim on the bank's assets.
   (c) The bank can use the deposit to make profitable investments.
   (d) The deposit increases the bank's capital reserves.
3. The process by which commercial banks create new money by making loans is known as:
   (a) Fractional reserve banking.
   (b) Open market operations.
   (c) Monetary policy.
   (d) Money multiplier effect.

4. How do commercial banks earn a profit?
   (a) By charging interest on loans and paying interest on deposits.
   (b) By buying and selling government securities in the open market.
   (c) By investing in foreign exchange markets.
   (d) By borrowing from the central bank.
5. The Reserve Bank of India (RBI) regulates commercial banks in India through various measures, including:
   (a) Controlling the government's fiscal policy.
   (b) Setting interest rates for commercial bank loans.
   (c) Regulating foreign exchange rates.
   (d) Imposing reserve requirements on banks.

**(c) The Behaviour of the Public**

1. The public's demand for money is influenced by:
   (a) The monetary policy set by the central bank.
   (b) The level of government spending and fiscal policy.
   (c) The availability of credit facilities from commercial banks.
   (d) The rate of inflation and interest rates in the economy.
2. When the central bank increases interest rates, it is likely to impact the behavior of the public by:
   (a) Encouraging more borrowing and spending.
   (b) Encouraging more saving and reducing spending.
   (c) Encouraging more investment in the stock market.
   (d) Encouraging more investment in real estate.
3. The public's behavior regarding money and spending can significantly affect the effectiveness of monetary policy set by the central bank. This is known as:
   (a) Fiscal policy effectiveness.
   (b) The money multiplier effect.
   (c) The liquidity trap.
   (d) Monetary policy transmission mechanism.
4. When the public holds a higher proportion of their wealth in the form of money (cash and deposits), it is referred to as:
   (a) Liquidity preference. (b) Fiscal responsibility.
   (c) Risk aversion. (d) Asset allocation.



5. If the public becomes more confident about the economy's future prospects, it is likely to result in:
   (a) An increase in the demand for money.
   (b) A decrease in the demand for money.
   (c) An increase in spending and investment.
   (d) A decrease in savings.

**1.8 Monetary Policy and Money Supply**

1. Monetary policy in India is primarily formulated and implemented by:
   (a) The Ministry of Finance.
   (b) The Securities and Exchange Board of India (SEBI).
   (c) The Reserve Bank of India (RBI).
   (d) The Planning Commission of India.
2. The main objective of monetary policy in India is to:
   (a) Control government spending and fiscal policy.
   (b) Regulate the stock market and financial institutions.
   (c) Control the money supply and inflation.
   (d) Promote international trade and investment.
3. Open market operations (OMOs) are conducted by the Reserve Bank of India (RBI) to:
   (a) Control the foreign exchange rates.
   (b) Regulate government spending.
   (c) Control the money supply.
   (d) Facilitate international trade.
4. The Cash Reserve Ratio (CRR) is the percentage of deposits that banks are required to keep as reserves with the RBI. If the RBI increases the CRR, it is likely to:
   (a) Increase the money supply in the economy.
   (b) Decrease the money supply in the economy.
   (c) Have no impact on the money supply.
   (d) Increase interest rates in the economy.
5. The Repo Rate is the rate at which the RBI lends money to commercial banks for short periods. If the RBI decreases the Repo Rate, it is likely to:
   (a) Increase borrowing and spending in the economy.
   (b) Decrease borrowing and spending in the economy.

(c) Have no impact on borrowing and spending.
(d) Increase the Cash Reserve Ratio (CRR).

6. Monetary policy refers to the actions taken by the central bank to:
(a) Control government spending
(b) Regulate foreign exchange rates
(c) Manage the money supply and interest rates
(d) Implement fiscal measures

7. When the central bank wants to increase the money supply, it can:
(a) Sell government bonds in the open market
(b) Raise the reserve requirement ratio for banks
(c) Decrease the discount rate
(d) Absorb excess reserves from banks

8. If the central bank reduces the reserve requirement ratio for commercial banks, it will likely result in:
(a) An increase in the money supply
(b) A decrease in the money supply
(c) No change in the money supply
(d) A change in the exchange rate

9. Open market operations involve the central bank buying or selling government bonds. When the central bank buys government bonds from the market, it:
(a) Increases the money supply
(b) Decreases the money supply
(c) Has no effect on the money supply
(d) Increases government debt

10. Contractionary monetary policy is characterized by the central bank's actions to:
(a) Increase government spending
(b) Lower taxes
(c) Reduce the money supply and raise interest rates
(d) Increase the money supply and lower interest rates

### 1.9 Effect of Government Expenditure on Money Supply

1. When the government of India increases its expenditure and pays for it by borrowing from the banking system, what is the likely impact on the money supply?



(a) The money supply will increase.
(b) The money supply will decrease.
(c) The money supply will remain unchanged.
(d) The money supply will fluctuate.

2. In India, which of the following tools does the Reserve Bank of India (RBI) use to offset the impact of government expenditure on money supply?
(a) Open market operations.
(b) Changes in the Statutory Liquidity Ratio (SLR).
(c) Changes in the Repo Rate.
(d) Changes in the Cash Reserve Ratio (CRR).

3. When the government of India reduces its expenditure and the money spent is withdrawn from circulation, what is the likely impact on the money supply?
(a) The money supply will increase.
(b) The money supply will decrease.
(c) The money supply will remain unchanged.
(d) The money supply will fluctuate.

4. The government of India increases taxes and reduces public spending simultaneously. What is the likely impact on the money supply?
(a) The money supply will increase.
(b) The money supply will decrease.
(c) The money supply will remain unchanged.
(d) The money supply will fluctuate.

5. When the Indian government increases its expenditure on infrastructure projects and welfare programs, the likely impact on the money supply in the economy will be:
(a) An increase in the money supply.
(b) A decrease in the money supply.
(c) No impact on the money supply.
(d) A fluctuation in the money supply.

6. When the government increases its expenditure by borrowing from the central bank, what will be the impact on the money supply?

(a) Increase in the money supply
(b) Decrease in the money supply
(c) No change in the money supply
(d) The impact depends on the type of government expenditure

7. Government expenditure that is financed through tax revenue has what effect on the money supply?
   (a) Increase in the money supply
   (b) Decrease in the money supply
   (c) No change in the money supply
   (d) The impact depends on the level of taxation
8. The effect of government expenditure on the money supply is influenced by the government's financing method. When the government borrows from the public to finance its spending, it can lead to:
   (a) An increase in the money supply
   (b) A decrease in the money supply
   (c) Inflation
   (d) A reduction in public debt
9. Expansionary fiscal policy, which involves increasing government expenditure, can lead to an increase in the money supply if the government:
   (a) Prints additional currency notes
   (b) Borrows from commercial banks
   (c) Increases taxes to finance the expenditure
   (d) Sells government bonds in the open market
10. The impact of government expenditure on the money supply can be limited if the central bank conducts offsetting monetary policy actions, such as:
    (a) Increasing the reserve requirement ratio for banks
    (b) Decreasing the interest rates
    (c) Selling government bonds in the open market
    (d) Implementing exchange rate interventions



## ANSWER

### 1.1 Introduction

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (a) | (b) | (a) | (c) | (a) | (c) | (a) | (a) | (a) |

### 1.2 Rationale of Measuring Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (a) | (a) | (c) | (b) | (d) | (a) | (c) | (b) | (d) |

### 1.3 The Sources of Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (d) | (c) | (c) | (d) | (c) | (b) | (a) | (a) | (d) |

### 1.4 Measurement of Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (b) | (c) | (d) | (b) | (a) | (c) | (b) | (d) | (d) |

### 1.5 Determinants of Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (a) | (c) | (c) | (d) | (a) | (a) | (a) | (c) | (b) |

### 1.6 The Concept of Money Multiplier

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (c) | (b) | (b) | (a) | (b) | (a) | (d) | (c) | (a) |

### 1.7 The Money Multiplier Approach to Supply of Money

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (c) | (c) | (b) | (c) | (a) | (d) | (a) | (b) | (d) |

### (a) The Behaviour of the Central Bank

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (b) | (a) | (c) | (c) | | | | | |

### (b) The Behaviour of Commercial Banks

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (b) | (a) | (a) | (d) | | | | | |

### (c) The Behaviour of the Public

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (b) | (d) | (a) | (c) | | | | | |

### 1.8 Monetary Policy and Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (c) | (c) | (b) | (a) | (c) | (c) | (a) | (a) | (c) |

### 1.9 Effect of Government Expenditure on Money Supply

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (a) | (b) | (b) | (a) | (a) | (c) | (a) | (b) | (c) |



## PAST YEAR QUESTIONS AND ANSWERS

### 2024 - JUNE

[1] Calculate broad Money M3?

(a) Currency with public + demand deposits with banks

(b) Currency with public + demand deposits with bank + net time deposits with the bank system

(c) Currency with public + savings with gov. banks

(d) Currency with public + demand deposits with banks + other deposits with RBI (1 mark)

**Answer:**

**(b)** $M_1$ = currency with people + demand deposits of banks + other deposits with RBI

$M_3 = M_1$ + net time deposits with banking system

[2] Calculate currency with public:

| Particulars | (in crores) (₹) |
|---|---|
| Notes with public in circulation | 23,26,500 |
| Currency of small coins in circulation | 500 |
| Currency of rupee coins in circulation | 34,500 |
| Cash in hand with the bank | 80,615 |

(a) ₹ 22,80,885 cr.

(b) ₹ 24,42,115 cr.

(c) ₹ 22,45,885 cr.

(d) ₹ 23,62,000 cr. (1 mark)

**Answer:**

**(a)** Currency with public = notes with public in circulation + currency of small coins in circulation + currency of rupee coins in circulation – cash in hand with banks.

23,26,500 + 500 + 34,500 – 80,615

= 22,80,885 cr.

[3] Money Multiplier means:

(a) It decreases the total money supply for given monetary base

(b) It dictates interest rates set by RBI

(c) The ratio of money supply to monetary base

(d) It controls amount of gold reserves held by bank (1 mark)

**Answer:**

**(c)** Money multiplier is defined as a ratio of changes in money supply to a given change in monetary base i.e., money supply and high-powered money are related by money multiplier.

$$\text{Money Multiplier} = \frac{\text{Money Supply}}{\text{Monetary Base}}$$

[4] If velocity = 20, average price = 120 and volume of transactions T = 150 crores, then money supply is:

(a) ₹ 2,500 crores(b)₹ 25 crores

(c) ₹ 900 crores(d)₹ 1,000 crores (1 mark)

**Answer:**

**(c)** M × 20 = 120 × 150

M × 20 = 18,000

M = 18,000/20

M = 900 crores

## 2024 - SEPTEMBER

[1] Which of the following is the correct formula to calculate Excess Reserves?

(a) Excess Reserves = Total reserves + Required reserves

(b) Excess Reserves = Total reserves - Required reserves

(c) Excess Reserves = Total reserves / Required reserves

(d) Excess Reserves = Total reserves × Required reserves (1 mark)



**Answer:**

**(b)** Excess Reserves = Total reserves - Required reserves

Excess reserves refer to the amount of reserves a bank holds over and above the required reserves set by the central bank.

[2] What type of currency is issued by the central bank?

(a) Digital money

(b) Commodity money

(c) Fiat money

(d) Representative money (1 mark)

**Answer:**

**(c)** Fiat money is currency that a central bank or government declares as legal tender. It is not backed by a physical commodity like gold or silver but derives its value from the trust and authority of the issuing central bank. Examples include modern paper currencies such as the US Dollar, Euro, and Indian Rupee.

[3] In an economy, the money supply (M) is ₹ 500 crores, the velocity of money (V) is 5 and the total number of transactions (T) is 10,000. Calculate the average price level (P) in the economy.

(a) ₹ 25 lakhs

(b) ₹ 25 thousand

(c) ₹ 50 lakhs

(d) ₹ 50 thousand (1 mark)

**Answer:**

**(a)** ₹ 25 lakhs

To calculate the average price level (P) in the economy, we can use the equation of exchange:

MV = PT

**Where:**

- M = Money supply
- V = Velocity of money
- P = Average price level
- T = Total number of transactions

We need to rearrange the formula to solve for P:

$$P = \frac{MV}{T}$$

**Given:**

- M = 500 crores
- V = 5
- T = 10,000

Now, substituting the values into the formula:

$$P = \frac{500 \times 5}{10,000}$$

Calculate this:

$$P = \frac{2,500}{10,000} = 0.25$$

Since we are dealing with crores, we convert it to lakhs:

0.25 crores = ₹ 25 lakhs

[4] If the monetary base in an economy is ₹ 250 crores through an open market operation by the central bank and the money supply is ₹ 1,000 crores, calculate the money multiplier.

(a) 1
(b) 0.25
(c) 4
(d) 0.40 (1 mark)

**Answer:**

**(c)** 4

The money multiplier is calculated using the following formula:

$$\text{Money Multiplier} = \frac{\text{Money Supply}}{\text{Monetary Base}}$$

**Given:**

- Money Supply = ₹ 1,000 crores
- Monetary Base = ₹ 250 crores

Substituting the values into the formula:

$$\text{Money Multiplier} = \frac{1,000}{250} = 4$$

[5] If the reserve ratio (R) is 0.10 and there is an increase in the reserves by ₹ 1,000, what will be the change in the money supply?

(a) ₹ 1,000
(b) ₹ 10,000
(c) ₹ 100
(d) ₹ 10 (1 mark)



**Answer:**

**(b)** ₹ 10,000

The change in the money supply can be calculated using the money multiplier formula:

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

The change in the money supply is then:

Change in Money Supply = Money Multiplier × Change in Reserves

**Given:**

- Reserve Ratio (R) = 0.10
- Increase in Reserves = ₹ 1,000

First, calculate the money multiplier:

$$\text{Money Multiplier} = \frac{1}{0.10} = 10$$

Now, calculate the change in the money supply:

Change in Money Supply = 10 × 1,000 = ₹ 10,000

## 2025 - JANUARY

[1] The currency issued by the Central Bank is known as _____ and is backed by supporting reserves and its value is a sovereign guarantee.

(a) Real money
(b) Credit money
(c) Fiat money
(d) Sovereign bonds (1 mark)

**Answer:**

**(c) Fiat money**

**Explanation:**

Fiat money is the currency issued by the Central Bank that has value because the government declares it as legal tender. It is not backed by physical commodities but is supported by the reserves and the sovereign guarantee.

[2] Considering that with a money multiplier of 1.5 there has been an increment of ₹ 600 cr of money supply. Find out the monetary base.

(a) ₹ 800 cr
(b) ₹ 200 cr
(c) ₹ 400 cr
(d) ₹ 900 cr (1 mark)

**Answer:**

**(c) ₹ 400 cr**

**Calculation of Monetary Base:**

**Explanation:**

**Given:**

- Money Multiplier = 1.5
- Increment in Money Supply = ₹ 600

**Step 1:** Apply the formula for Monetary Base

- Monetary Base = Money Supply / Money Multiplier
- Monetary Base = ₹ 600 / 1.5 = ₹ 400

**Conclusion:** The monetary base is ₹ 400 cr.

[3] Calculate Narrow Money M1 from the following data:

| | |
|---|---|
| Currency with public | ₹ 88,000 cr |
| Demand deposit with the banking system | ₹ 2,20,000 cr |
| Time deposit with the banking system | ₹ 2,40,000 cr |
| Other deposits with RBI | ₹ 2,60,000 cr |
| Saving deposits with Post Office Saving Bank | ₹ 50,000 cr |

(a) ₹ 5,68,000 cr
(b) ₹ 6,18,000 cr
(c) ₹ 5,98,000 cr
(d) ₹ 6,38,000 cr (1 mark)

**Answer:**

**(a) ₹ 5,68,000 cr**

**M1 = Currency with public + Demand deposits with banking system + Other deposits with RBI**

**Given:**

- Currency with public = ₹ 88,000 crore
- Demand deposits with banking system = ₹ 2,20,000 crore



- Other deposits with RBI = ₹ 2,60,000 crore
- [Do Not include] Time deposits = ₹ 2,40,000 crore
- [Do Not include] Savings deposits with Post Office = ₹ 50,000 crore

M1 = ₹ 88,000 + ₹ 2,20,000 + ₹ 2,60,000 = ₹ 5,68,000 crore

[4] Calculate currency with the public from the following data:

| | |
|---|---|
| Notes in circulation | ₹ 45,000 cr |
| Circulation of rupee coins | ₹ 1,500 cr |
| Circulation of small coins | ₹ 750 cr |
| Cash on hand with banks | ₹ 27,500 cr |

(a) ₹ 74,750 cr (b) ₹ 19,750 cr
(c) ₹ 73,250 cr (d) ₹ 29,750 cr (1 mark)

**Answer:**

**(b) ₹ 19,750 cr**

**Calculation of Currency with the Public:**

**Explanation:**

**Given:**

- Notes in circulation = ₹ 45,000 cr
- Circulation of rupee coins = ₹ 1,500 cr
- Circulation of small coins = ₹ 750 cr
- Cash on hand with banks = ₹ 27,500 cr

**Step 1:** Apply the formula for Currency with the Public

- Currency with the Public = Notes in circulation + Circulation of rupee coins + Circulation of small coins - Cash on hand with banks
- Currency with the Public = ₹ 45,000 cr + ₹ 1,500 cr + ₹ 750 cr - ₹ 27,500 cr = ₹ 19,750 cr

**Conclusion:** The currency with the public is ₹ 19,750 cr.

[5] Money created by the commercial banks is called _____.

(a) Real money (b) High powered money
(c) Fiat money (d) Credit money (1 mark)

**Answer:**

**(d) Credit money**

**Explanation:**

Credit money refers to the money created by commercial banks

through lending activities. It includes the deposits created when banks extend credit to borrowers, which increases the money supply in the economy.

[6] Under the concept of money supply, the term 'public' does not include _____.

(a) Households
(b) Institutions
(c) Government and banking system
(d) Firms (1 mark)

**Answer:**

**(c) Government and banking system**

**Explanation:**

In the context of money supply, the term 'public' refers to all entities outside the central bank and the commercial banking system. This includes households, firms, and institutions. Therefore, the correct answer is: **(c) Government and banking system**

[7] Compute the total credit money created by the banking system if the required reserve ratio is 15% for every ₹ 12,00,000 deposited in the banking system?

(a) ₹ 1,00,00,000 (b) ₹ 80,00,000
(c) ₹ 1,25,00,000 (d) ₹ 1,50,00,000 (1 mark)

**Answer:**

**(b) ₹ 80,00,000**

**Formula:**

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

Total Credit Money = Initial Deposit × Credit Multiplier

**Given:**

- Initial Deposit = ₹ 12,00,000
- Required Reserve Ratio (RRR) = 15% = 0.15

**Step 1: Calculate Credit Multiplier**

$$\frac{1}{0.15} = 6.67$$

**Step 2: Calculate Total Credit Money**

₹ 12,00,000 × 6.67 = ₹ 80,04,000 ≈ ₹ 80,00,000



## 2025 - MAY

[1] Calculate currency with Public from following Data ( ₹ in lakhs):

| | |
|---|---|
| Notes in Circulation | 2,59,121 |
| Coins in Circulation | 23,345 |
| Cash on hands with Banks | 19,009 |
| Coin on hands with Banks | 909 |

(a) ₹ 3,02,384 (b) ₹ 2,62,548
(c) ₹ 2,53,876 (d) ₹ 2,15,858 (1 mark)

[2] What is the likely impact of an increase in the Time Deposit to Demand Deposit (TD/DD) ratio on the banking system and monetary expansion?

(a) It leads to higher availability of free reserves and consequent enlargement of volume of multiple deposit expansion and monetary expansion.
(b) It reduces the availability of free reserves, thereby restricting the process of monetary expansion.
(c) It has no impact on the banking system as time deposits and demand deposits are interchangeable.
(d) It directly reduces the money supply as time deposits are not considered part of the money supply. (1 mark)

[3] Broad money includes currency deposits with an agreed maturity of up to ___ years, deposits redeemable at notice up to ___ months and repurchase agreements, money market fund shares/units and debt security up to ___ years.

(a) 3 years, 6 months, 3 years (b) 2 years, 6 months, 2 years
(c) 3 years, 3 months, 3 years (d) 2 years, 3 months, 2 years (1 mark)

[4] Which of the following is NOT included in M1 ?

(a) Currency with the public
(b) Demand deposits with banks
(c) Time (term) deposits with banks
(d) Other deposits with RBI (1 mark)

## Chapter Trend Analysis

**THE GRAPH**

**Marks of Objective, Short Notes, Distinguish Between, Descriptive & Practical Questions**






| CHAPTER | MONEY MARKET |
|---|---|
| **8.3** | **Monetary Policy** |

| 1. The Monetary Policy Framework | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2021-Dec | 6 | 2024-Jun | 1 | 2024-Jun | 2 |
| 2024-Jun | 3 | 2024-Sep | 2 | 2025-Jan | 1 |
| 2025-Jan | 2 | 2025-May | 1 | 2025-May | 2 |
| 2025-May | 3 | | | | |

| 2. The Organisational Structure for Monetary Policy Decisions | | | | | |
|---|---|---|---|---|---|
| **Attempt** | **Q. No.** | **Attempt** | **Q. No.** | **Attempt** | **Q. No.** |
| 2024-Sep | 1 | | | | |

## MODEL QUESTIONS

### 1.1 Introduction

1. Monetary policy in India is formulated and regulated by:
   (a) The Ministry of Finance.
   (b) The Planning Commission of India.
   (c) The Reserve Bank of India (RBI).
   (d) The Securities and Exchange Board of India (SEBI).

2 The primary objective of monetary policy in India is to:
   (a) Control government spending and fiscal deficits.
   (b) Regulate foreign trade and exchange rates.
   (c) Control the money supply and inflation.
   (d) Set interest rates for commercial banks.

3. Which of the following is an example of an expansionary monetary policy measure that the RBI may adopt in India?
   (a) Increasing the Repo Rate.
   (b) Decreasing the Cash Reserve Ratio (CRR).
   (c) Selling government securities in the open market.
   (d) Increasing the Statutory Liquidity Ratio (SLR).
4. Contractionary monetary policy measures are designed to:
   (a) Increase government spending and investment.
   (b) Decrease the money supply and control inflation.
   (c) Encourage more borrowing and spending by the public.
   (d) Reduce interest rates for businesses and individuals.
5. The primary transmission mechanism through which monetary policy affects the economy in India is:
   (a) The money multiplier effect.
   (b) The fiscal policy multiplier.
   (c) The currency-deposit ratio.
   (d) The credit and interest rate channels.
6. Monetary policy is a tool used by the central bank to:
   (a) Regulate foreign trade
   (b) Control inflation and stabilize the economy
   (c) Manage government expenditures
   (d) Influence fiscal policy
7. Which of the following is an example of an expansionary monetary policy?
   (a) Increasing the reserve requirement ratio
   (b) Selling government bonds in the open market
   (c) Decreasing the discount rate
   (d) Raising taxes
8. Contractionary monetary policy aims to:
   (a) Boost economic growth and employment
   (b) Increase the money supply and lower interest rates
   (c) Reduce inflation and cool down an overheated economy
   (d) Encourage borrowing and spending
9. The interest rate at which the central bank lends to commercial banks is known as:
   (a) The discount rate (b) The federal funds rate
   (c) The prime rate (d) The benchmark rate



10. When the central bank buys government bonds from the market, it:
    (a) Increases the money supply
    (b) Decreases the money supply
    (c) Has no effect on the money supply
    (d) Increases government debt

### 1.2 Monetary Policy Defined

1. Monetary policy in India refers to the:
   (a) Government's control over the stock market and financial institutions.
   (b) Regulation of foreign trade and exchange rates by the Reserve Bank of India (RBI).
   (c) Central bank's control over the money supply and interest rates in the economy.
   (d) Government's control over taxation and public spending.
2. The main goal of monetary policy in India is to:
   (a) Control the government's fiscal policy.
   (b) Regulate foreign trade and international transactions.
   (c) Control the money supply and maintain price stability.
   (d) Promote international investments and trade.
3. Which of the following monetary policy tools can be used by the Reserve Bank of India (RBI) to reduce the money supply in the economy?
   (a) Lowering the Cash Reserve Ratio (CRR).
   (b) Lowering the Repo Rate.
   (c) Conducting open market purchases of government securities.
   (d) Increasing the Statutory Liquidity Ratio (SLR).
4. When the Reserve Bank of India (RBI) aims to stimulate economic growth and increase the money supply, it is likely to:
   (a) Raise the Reverse Repo Rate.
   (b) Raise the Cash Reserve Ratio (CRR).
   (c) Conduct open market sales of government securities.
   (d) Raise the Repo Rate.

5. The term "Monetary Policy Transmission Mechanism" refers to:
   (a) The process of converting fiscal policy into monetary policy.
   (b) The channels through which monetary policy affects the economy.
   (c) The coordination between the central bank and the government.
   (d) The process of setting interest rates by the central bank.
6. Monetary policy is a macroeconomic policy that is primarily concerned with:
   (a) Managing government expenditures
   (b) Regulating foreign trade
   (c) Controlling the money supply and interest rates
   (d) Implementing tax policies
7. The main objective of monetary policy is to:
   (a) Maximize government revenue
   (b) Stabilize foreign exchange rates
   (c) Promote economic growth and employment
   (d) Control inflation and reduce government debt
8. In a contractionary monetary policy, the central bank takes actions to:
   (a) Increase the money supply and lower interest rates
   (b) Reduce government spending and increase taxes
   (c) Decrease the money supply and raise interest rates
   (d) Encourage borrowing and spending
9. The Federal Reserve in the United States and the European Central Bank are examples of:
   (a) Fiscal policy authorities
   (b) Commercial banks
   (c) Investment banks
   (d) Central banks responsible for monetary policy
10. Which of the following is not a monetary policy tool used by central banks?
    (a) Open market operations
    (b) Reserve requirement ratio
    (c) Government bonds issuance
    (d) Discount rate



### 1.3 The Monetary Policy Framework

1. The Monetary Policy Framework in India is governed by:
   (a) The Ministry of Finance.
   (b) The Prime Minister's Office (PMO).
   (c) The Reserve Bank of India (RBI).
   (d) The Securities and Exchange Board of India (SEBI).
2. The Monetary Policy Committee (MPC) in India consists of members from:
   (a) Commercial banks and financial institutions.
   (b) The Ministry of Finance and the RBI.
   (c) Academia, the RBI, and the government.
   (d) The World Bank and the International Monetary Fund (IMF).
3. The primary objective of the Monetary Policy Framework in India is to achieve:
   (a) High economic growth and full employment.
   (b) Fiscal stability and balanced budget.
   (c) Price stability and controlled inflation.
   (d) Favorable balance of trade and exchange rate stability.
4. The "Liquidity Adjustment Facility (LAF)" is a significant instrument used in the Monetary Policy Framework in India. What does LAF primarily aim to do?
   (a) Regulate the foreign exchange market.
   (b) Control the money supply in the economy.
   (c) Encourage foreign direct investment (FDI).
   (d) Regulate the stock market.
5. The monetary policy framework outlines the strategies and tools used by the central bank to achieve its monetary policy objectives. Which of the following is not a typical objective of a central bank's monetary policy?
   (a) Price stability and controlling inflation
   (b) Promoting economic growth and employment
   (c) Regulating foreign exchange rates
   (d) Ensuring financial stability and supervision

6. The two main types of monetary policy frameworks are:
   (a) Inflation targeting and exchange rate targeting
   (b) Fiscal policy and monetary targeting
   (c) Open market operations and reserve requirements
   (d) Price stability and financial stability
7. In an inflation targeting framework, the central bank aims to achieve a specific target for:
   (a) The money supply growth rate
   (b) Unemployment rate
   (c) Economic growth rate
   (d) Inflation rate
8. Exchange rate targeting involves the central bank pegging the domestic currency to:
   (a) A basket of foreign currencies
   (b) Gold or other precious metals
   (c) The inflation rate of a major trading partner
   (d) The interest rate set by the central bank
9. An advantage of an inflation targeting framework is that it provides:
   (a) Flexibility for the central bank to adjust its policy based on changing economic conditions
   (b) Fixed and rigid monetary policy rules that do not require adjustments
   (c) Complete independence of the central bank from the government's fiscal policies
   (d) No need for central bank communication with the public and financial markets

### 1.3.1 The Objectives of Monetary Policy

1. The primary objective of monetary policy in India is to:
   (a) Achieve high economic growth and full employment.
   (b) Control the government's fiscal policy.
   (c) Regulate the stock market and financial institutions.
   (d) Achieve price stability and controlled inflation.



2. In addition to price stability, monetary policy in India also aims to:
   (a) Regulate foreign trade and exchange rates.
   (b) Control the money supply and interest rates.
   (c) Encourage foreign direct investment (FDI).
   (d) Reduce the government's fiscal deficit.
3. One of the secondary objectives of monetary policy in India is to promote:
   (a) Government spending and fiscal expansion.
   (b) Foreign trade and export-oriented industries.
   (c) Financial inclusion and banking services.
   (d) Equity and social justice.
4. Which of the following is NOT an objective of monetary policy in India?
   (a) Controlling inflation and maintaining price stability.
   (b) Promoting foreign direct investment (FDI).
   (c) Facilitating economic growth and development.
   (d) Ensuring financial stability in the banking system.
5. The objectives of monetary policy in India are set by:
   (a) The Ministry of Finance.
   (b) The Reserve Bank of India (RBI).
   (c) The Securities and Exchange Board of India (SEBI).
   (d) The Parliament of India.

### 1.3.2 Transmission of Monetary Policy

1. The transmission of monetary policy in India refers to:
   (a) The process of formulating monetary policy objectives.
   (b) The implementation of fiscal policy measures by the government.
   (c) The process by which changes in monetary policy affect the economy.
   (d) The coordination between the Ministry of Finance and the Reserve Bank of India.
2. When the Reserve Bank of India (RBI) reduces the repo rate, it is likely to impact the economy by:
   (a) Increasing borrowing costs for consumers and businesses.
   (b) Encouraging commercial banks to lower lending rates.
   (c) Discouraging foreign direct investment (FDI).
   (d) Lowering government expenditure.

3. The "Bank Rate" is one of the key policy rates used by the Reserve Bank of India (RBI). An increase in the Bank Rate is likely to impact the economy by:
   (a) Encouraging banks to increase their lending activities.
   (b) Reducing interest rates for consumers and businesses.
   (c) Discouraging borrowing and spending.
   (d) Promoting exports and foreign trade.
4. The transmission of monetary policy in India occurs through various channels, including:
   (a) Fiscal policy measures implemented by the government.
   (b) Changes in the foreign exchange rate.
   (c) Changes in government borrowing and expenditure.
   (d) Changes in bank lending rates and credit availability.

**Channels of Monetary policy Transmission**
**Saving and Investment Channel**

1. The Saving and Investment Channel of monetary policy in India refers to:
   (a) The process of promoting saving and investment through government policies.
   (b) The impact of changes in interest rates on saving and investment behavior.
   (c) The role of the stock market in mobilizing savings and facilitating investments.
   (d) The coordination between the Ministry of Finance and the Reserve Bank of India.
2. When the Reserve Bank of India (RBI) lowers interest rates, it is likely to impact saving and investment by:
   (a) Encouraging more saving and less investment.
   (b) Encouraging less saving and more investment.
   (c) Discouraging both saving and investment.
   (d) Having no impact on saving and investment.



3. The impact of the Saving and Investment Channel on the economy is that lower interest rates can lead to:
   (a) Increased aggregate demand and economic expansion.
   (b) Reduced government expenditure and fiscal contraction.
   (c) A decrease in foreign direct investment (FDI).
   (d) A decrease in consumer spending and increased saving.
4. When the RBI raises interest rates, the impact on saving and investment in India is likely to be:
   (a) Higher saving and lower investment.
   (b) Lower saving and higher investment.
   (c) A decrease in aggregate demand and economic contraction.
   (d) An increase in the government's fiscal deficit.
5. The Saving and Investment Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence economic growth?
   (a) By directly controlling government spending and fiscal policy.
   (b) By influencing saving and investment behavior to stimulate economic activity.
   (c) By regulating foreign trade and exchange rates.
   (d) By promoting foreign direct investment (FDI) and exports.

**Cash-flow Channel**

1. The Cash-flow Channel of monetary policy in India refers to:
   (a) The impact of changes in interest rates on cash flows of businesses and households.
   (b) The process of managing the government's cash reserves.
   (c) The role of the Reserve Bank of India (RBI) in printing and distributing currency notes.
   (d) The coordination between the Ministry of Finance and the RBI in managing cash transactions.
2. When the Reserve Bank of India (RBI) lowers interest rates, the Cash-flow Channel is likely to affect the economy by:
   (a) Reducing the government's fiscal deficit.
   (b) Encouraging businesses to invest more and increase spending.
   (c) Encouraging individuals to save more and reduce spending.
   (d) Having no impact on the cash flows of businesses and households.

3. The impact of the Cash-flow Channel on the economy is that lower interest rates can lead to:
   (a) Reduced government borrowing and increased fiscal discipline.
   (b) A decrease in foreign direct investment (FDI).
   (c) An increase in consumer spending and economic growth.
   (d) A decrease in aggregate demand and economic contraction.
4. When the RBI raises interest rates, the Cash-flow Channel is likely to impact the economy by:
   (a) Encouraging more borrowing and spending by households.
   (b) Discouraging businesses from undertaking new investment projects.
   (c) Having no impact on the cash flows of businesses and households.
   (d) Reducing the fiscal deficit and promoting government savings.
5. The Cash-flow Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence financial markets?
   (a) By directly regulating stock market transactions.
   (b) By influencing the flow of currency in the economy.
   (c) By impacting the cash flows and investment decisions of financial institutions.
   (d) By controlling the government's fiscal policy.

**Asset Prices and Wealth Channel**

1. The Asset Prices and Wealth Channel of monetary policy in India refers to:
   (a) The impact of changes in interest rates on the prices of assets like stocks and real estate.
   (b) The management of the country's foreign exchange reserves.
   (c) The role of the Reserve Bank of India (RBI) in controlling commodity prices.
   (d) The coordination between the Ministry of Finance and the RBI in managing financial assets.



2. When the Reserve Bank of India (RBI) lowers interest rates, the Asset Prices and Wealth Channel is likely to affect the economy by:
   (a) Encouraging more borrowing and spending by households and businesses.
   (b) Decreasing the prices of assets like stocks and real estate.
   (c) Increasing the value of financial assets and overall wealth.
   (d) Having no impact on asset prices and wealth.
3. The impact of the Asset Prices and Wealth Channel on the economy is that rising asset prices and increased wealth can lead to:
   (a) Reduced consumption and decreased economic growth.
   (b) Higher borrowing costs and decreased investment.
   (c) Increased consumer spending and improved economic activity.
   (d) A decrease in government expenditure and fiscal discipline.
4. When the RBI raises interest rates, the Asset Prices and Wealth Channel is likely to impact the economy by:
   (a) Increasing the prices of financial assets and overall wealth.
   (b) Encouraging more borrowing and investment by businesses.
   (c) Discouraging borrowing and spending by households and businesses.
   (d) Reducing the government's fiscal deficit.
5. The Asset Prices and Wealth Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence consumer behavior?
   (a) By directly regulating consumer spending and saving rates.
   (b) By influencing the prices of consumer goods and services.
   (c) By impacting the overall wealth and financial positions of consumers.
   (d) By controlling the government's fiscal policy.

**Exchange Rate Channel**

1. The Exchange Rate Channel of monetary policy in India refers to:
   (a) The impact of changes in the exchange rate on the domestic economy.
   (b) The management of the country's foreign exchange reserves.

(c) The role of the Reserve Bank of India (RBI) in controlling import and export activities.
(d) The coordination between the Ministry of Finance and the RBI in managing exchange rates.

2. When the Reserve Bank of India (RBI) allows the domestic currency to appreciate, it is likely to impact the economy by:
(a) Making imports cheaper and increasing import volumes.
(b) Making exports more expensive and decreasing export volumes.
(c) Encouraging more foreign direct investment (FDI).
(d) Having no impact on the economy.

3. The impact of the Exchange Rate Channel on the economy is that a depreciating domestic currency can lead to:
(a) Increased export volumes and improved balance of trade.
(b) Higher import costs and increased inflation.
(c) A decrease in foreign direct investment (FDI).
(d) Decreased government spending and fiscal discipline.

4. When the RBI intervenes in the foreign exchange market to stabilize the domestic currency, the Exchange Rate Channel is likely to impact the economy by:
(a) Encouraging more borrowing and spending by households and businesses.
(b) Influencing the flow of currency in the economy.
(c) Having no impact on the economy's external sector.
(d) Maintaining stable exchange rates to support trade and investment.

5. The Exchange Rate Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence inflation?
(a) By directly regulating consumer prices and wages.
(b) By impacting the cost of imported goods and commodities.
(c) By controlling the government's fiscal policy.
(d) By regulating the money supply in the economy.



### 1.3.3 Operating Procedures and Instruments

1. Operating Procedures and Instruments of Monetary Policy in India are designed to:
(a) Manage the government's fiscal deficit and public debt.
(b) Regulate the country's foreign exchange reserves.
(c) Control the money supply and influence interest rates.
(d) Coordinate the monetary policy with fiscal policy measures.

2. The primary instrument used by the Reserve Bank of India (RBI) to control short-term interest rates is:
(a) The Cash Reserve Ratio (CRR).
(b) The Statutory Liquidity Ratio (SLR).
(c) The Repo Rate.
(d) The Bank Rate.

3. Open Market Operations (OMOs) is one of the tools used by the RBI to influence the money supply. What does OMOs involve?
(a) The RBI's intervention in the foreign exchange market.
(b) The sale and purchase of government securities in the open market.
(c) The regulation of foreign direct investment (FDI) flows.
(d) The control of inflation through price ceilings.

4. The Cash Reserve Ratio (CRR) is another tool used by the RBI to regulate the money supply. What does CRR represent?
(a) The percentage of cash banks must maintain with the RBI as a reserve.
(b) The interest rate at which banks can borrow from the RBI.
(c) The percentage of cash banks must keep with the RBI for foreign exchange transactions.
(d) The rate at which the RBI lends money to banks for long-term purposes.

5. The Reverse Repo Rate is an important tool used by the RBI for monetary policy operations. What does the Reverse Repo Rate represent?
(a) The rate at which the RBI borrows from commercial banks.
(b) The rate at which the RBI lends to commercial banks.
(c) The rate at which commercial banks borrow from each other.
(d) The rate at which the RBI intervenes in the foreign exchange market.

### 1.4 The Organisational Structure for Monetary Policy Decisions

1. In India, the responsibility for formulating and implementing monetary policy lies with:
   (a) The Ministry of Finance.
   (b) The Reserve Bank of India (RBI).
   (c) The Securities and Exchange Board of India (SEBI).
   (d) The Indian Parliament.
2. The highest decision-making body for monetary policy in India is:
   (a) The Board of Directors of the Reserve Bank of India (RBI).
   (b) The Finance Minister of India.
   (c) The Prime Minister of India.
   (d) The Monetary Policy Committee (MPC) of the RBI.
3. The Monetary Policy Committee (MPC) consists of members from:
   (a) The Ministry of Finance and external economists.
   (b) The Indian Parliament and the banking sector.
   (c) The Ministry of Commerce and the corporate sector.
   (d) The Reserve Bank of India (RBI) and foreign central banks.
4. The Governor of the Reserve Bank of India (RBI) serves as the:
   (a) Chairman of the Monetary Policy Committee (MPC).
   (b) Secretary of the Ministry of Finance.
   (c) Chief Executive Officer (CEO) of the RBI.
   (d) Head of the Indian Parliament.
5. The primary mandate of the Monetary Policy Committee (MPC) is to:
   (a) Regulate the foreign exchange market and maintain exchange rate stability.
   (b) Control inflation and achieve the targeted inflation rate.
   (c) Manage the government's fiscal deficit and public debt.
   (d) Promote economic growth and increase employment opportunities.
6. In most countries, monetary policy decisions are made by:
   (a) The President or Prime Minister
   (b) The Treasury Department
   (c) The Ministry of Finance
   (d) The central bank's monetary policy committee or board
7. The central bank's monetary policy committee or board is responsible for:
   (a) Implementing fiscal policies
   (b) Setting interest rates and managing the money supply
   (c) Regulating foreign trade
   (d) Issuing government bonds
8. The monetary policy committee or board typically consists of:
   (a) Elected government officials
   (b) Financial market analysts
   (c) Representatives from commercial banks
   (d) Key decision-makers from the central bank
9. The primary objective of the monetary policy committee or board is to:
   (a) Maximize government revenue
   (b) Control foreign exchange rates
   (c) Achieve price stability and economic growth
   (d) Influence fiscal policy decisions
10. In some countries, the central bank's monetary policy decisions may be influenced by the:
    (a) Ministry of Foreign Affairs
    (b) World Bank
    (c) International Monetary Fund (IMF)
    (d) Ministry of Education



## ANSWER

### 1.1 Introduction

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (c) | (b) | (b) | (d) | (b) | (c) | (c) | (a) | (a) |

### 1.2 Monetary Policy Defined

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (c) | (c) | (c) | (b) | (c) | (c) | (c) | (d) | (c) |

### 1.3 The Monetary Policy Framework

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (c) | (c) | (b) | (c) | (a) | (d) | (a) | (a) | |

### 1.3.1 The Objectives of Monetary Policy

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (d) | (b) | (c) | (b) | (b) | | | | | |

### 1.3.2 Transmission of Monetary Policy

| Q.No. | 1 | 2 | 3 | 4 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (b) | (c) | (d) | | | | | | |

### Channels of Monetary policy Transmission

### Saving and Investment Channel

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (b) | (a) | (a) | (b) | | | | | |

### Cash-flow Channel

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (b) | (c) | (b) | (c) | | | | | |

### Asset Price and Wealth Channel

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (c) | (c) | (c) | (c) | | | | | |

### Exchange Rate Channel

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (a) | (b) | (a) | (d) | (b) | | | | | |



### 1.3.3 Operating Procedures and Instruments

| Q.No. | 1 | 2 | 3 | 4 | 5 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (c) | (c) | (b) | (a) | (a) | | | | | |

### 1.4 The Organisational Structure for Monetary Policy Decisions

| Q.No. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| Answer | (b) | (d) | (a) | (a) | (b) | (d) | (b) | (d) | (c) | (c) |

## PAST YEAR QUESTIONS AND ANSWERS

### 2021 - DECEMBER

[1] In India, Monetary policy is implemented by _____.
(a) RBI (b) SEBI
(c) SBI (d) ICICI (1 mark)

**Answer:**

**(a)** The Reserve Bank of India (RBI) is vested with the responsibility of conducting monetary policy. This responsibility is explicitly mandated under the Reserve Bank of India Act, 1934.

### 2024 - JUNE

[1] Which of the following is not a channel of monetary transmission mechanism?
(a) Savings and investment channel
(b) Cash flow channel
(c) Exchange rate channel
(d) International Trade channel (1 mark)

**Answer:**

**(d)** Channels of monetary policy transmission:
   a. Savings and investment channel
   b. Cash flow channel
   c. Asset prices and wealth channel
   d. Exchange rate channel

[2] Open Market purchases of government securities by RBI will:
(a) Reduce money supply
(b) Reduce reserves
(c) Increase reserves
(d) Reduce reserves and thereby reduce money supply (1 mark)

**Answer:**

**(c)** When RBI purchases government securities, the money flows from RBI to the banks and hence reserves with banks increase.

[3] The "Bank Rate" is one of the key policy used by the Reserve Bank of India (RBI). An increase in the Bank Rate is likely to impact the economy by:
(a) Encouraging banks to increase their lending activities
(b) Reducing interest rates for consumers and business
(c) Discouraging borrowing and spending
(d) Promoting exports and foreign trade (1 mark)

**Answer:**

**(c) Discouraging borrowing and spending:** An increase in bank rate by RBI is likely to discourage borrowing and spending by making borrowing more expensive for commercial banks. Higher borrowing costs can lead to reduced credit availability and slower economic activity.

## 2024 - SEPTEMBER

[1] What does RBI publish every six months, providing explanations of the sources of inflation and forecasts for the upcoming period of six to eighteen months?
(a) Financial Stability Report
(b) Economic Outlook Report



(c) Monetary Policy Report
(d) Inflation Targeting Framework (1 mark)

**Answer:**

**(c)** Monetary Policy Report
The Reserve Bank of India (RBI) publishes the Monetary Policy Report every six months. This report provides an analysis of inflation trends, sources of inflation, and forecasts for the upcoming six to eighteen months.

[2] Reverse Repo rate is linked to repo rate in the following way:
(a) Reverse Repo Rate = Repo Rate - 1
(b) Reverse Repo Rate = Repo Rate + 1
(c) Reverse Repo Rate = Repo Rate x 0.1%
(d) Reverse Repo Rate = Repo Rate x 0.01% (1 mark)

**Answer:**

**(a)** Reverse Repo Rate = Repo Rate - 1
In practice, the Reverse Repo Rate is generally set lower than the Repo Rate, typically by a margin such as 1%, though this margin can change based on monetary policy decisions by the Reserve Bank of India (RBI).

## 2025 - JANUARY

[1] _____ is a penal rate at which RBI lends money to banks, above the rate available under the repo policy.
(a) Marginal standing facility rate
(b) Bank rate
(c) Repo rate
(d) Reverse repo rate (1 mark)

**Answer:**

**(a) Marginal standing facility rate**
**Explanation:**
The Marginal Standing Facility (MSF) rate is the penal rate at which the Reserve Bank of India (RBI) lends money to commercial banks, above the rate available under the repo policy. It is used when banks face liquidity shortages and need emergency funding.

[2] Liquidity Adjustment Facility (LAF) was introduced by RBI on the basis of the recommendation of the _____ Committee on the reforms in banking sector.
(a) Tandon
(b) Narsimham
(c) Chore
(d) Basel (1 mark)

**Answer:**

**(b) Narasimham**

**Explanation:**

The Liquidity Adjustment Facility (LAF) was introduced by the Reserve Bank of India (RBI) in 1998 based on the recommendations of the Narasimham Committee on Banking Sector Reforms.

Therefore, the correct answer is: **(B) Narasimham Committee.**

## 2025 - MAY

[1] Banks availing Marginal Standing Facility Rate can use a maximum of how much percentage of Statutory Liquidity Ratio Securities ?
(a) 1% (b) 2%
(c) 3% (d) 4% (1 mark)

[2] Which of the following is NOT a quantitative tool of monetary policy ?
(a) Cash Reserve Ratio (CRR)
(b) Statutory Liquidity Ratio (SLR)
(c) Open Market Operations (OMO)
(d) Liquidity Adjustment Facility (LAF) (1 mark)

[3] Which of the following expressions is true ?
(a) Reverse Repo Rate = Repo Rate - 1
(b) Reverse Repo Rate = Repo Rate + 1
(c) Repo Rate = Reverse Repo Rate - 1
(d) Repo Rate = 1 - Reverse Repo Rate (1 mark)





**Core Concepts**

- Define monetary policy and its role in stabilizing the economy.
- Explain the objectives of monetary policy: controlling inflation, stabilizing currency, and promoting economic growth.
- Discuss the tools of monetary policy: quantitative tools (CRR, SLR, repo rate) and qualitative tools (credit rationing, moral suasion).
- Differentiate between expansionary and contractionary monetary policy.
- Highlight the role of central banks in implementing monetary policy.

**Checklist for Learning**

- Memorize the objectives and tools of monetary policy.
- Understand the difference between expansionary and contractionary policies.
- Learn how monetary policy affects inflation, employment, and GDP.
- Study the role of central banks in maintaining monetary stability.
- Review real-world examples of monetary policy in action.

**Motivational Thoughts**

- "Monetary policy is the steering wheel of the economy, guiding it toward stability and growth."
- "A well-designed monetary policy ensures economic prosperity for all."
- "Understanding monetary policy is key to unlocking the secrets of economic management."
- "Inflation and deflation are two sides of the same coin—monetary policy keeps the balance."
- "A nation's financial health depends on how effectively its monetary policy is crafted."

**Fun Facts**

- The concept of monetary policy dates back to the 18th century with David Hume and Adam Smith.
- The repo rate, used in monetary policy, directly impacts the interest rates on loans and deposits.
- India's Reserve Bank of India (RBI) announces its monetary policy every two months.
- Quantitative easing was widely used by central banks during the 2008 financial crisis.
- The Federal Reserve in the USA has a dual mandate: price stability and maximum employment.

**Quick Study Tips**

- Use flashcards to memorize key terms like repo rate, CRR, and SLR.
- Highlight important points in notes for easy revision.
- Watch concise videos explaining monetary policy and its tools.
- Solve multiple-choice questions on monetary policy for practice.
- Review case studies of monetary policies implemented by central banks.

**Engaging Activities**

- Role-play as central bank officials discussing monetary policy strategies.
- Group activity: Analyze the impact of changing the repo rate on borrowers and savers.
- Debate: Is inflation targeting the best approach for monetary policy?
- Create a flowchart showing the transmission mechanism of monetary policy.
- Analyze the effects of expansionary monetary policy during a recession.

**Practical Analysis**

- Study the impact of recent changes in your country's repo rate on the economy.
- Analyze how inflation targeting has influenced monetary policy decisions.
- Compare the monetary policies of two countries during an economic crisis.
- Investigate how open market operations affect liquidity in the banking system.
- Research the role of central bank independence in effective monetary policy.

**Real-World Experiences**

- Visit a local bank to learn how interest rate changes affect lending.
- Interview a banker or economist about the challenges of implementing monetary policy.
- Study the impact of quantitative easing on global financial markets.
- Research how central banks use monetary policy to stabilize currency values.
- Observe the effects of monetary policy announcements on stock markets.

- The nominal demand for money is positively related to the price level, P; rises if bonds and stock returns, $r_b$ and $r_e$, respectively decline and vice versa; is influenced by inflation; and is a function of total wealth
- The Demand for Money as Behaviour toward 'aversion to risk' propounded by Tobin states that money is a safe asset but an investor will be willing to exercise a trade-off and sacrifice to some extent, the higher return from bonds for a reduction in risk
- According to Tobin, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money and the demand for money as a store of wealth depends negatively on the interest rate.

# TEST YOUR KNOWLEDGE

## Multiple Choice Type Questions

1. *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.*
2. *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*
3. *Demand for money is*
   - (a) *Derived demand*
   - (b) *Direct demand*
   - (c) *Real income demand*
   - (d) *Inverse demand*

4. *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*

5. *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 the above*

6. *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*

7. *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*

8. *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*

9. *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*

10. *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*

11. *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*

12. *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*

13. *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*

14. _____ *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*

15. *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*

## ANSWERS

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

- The additional units of high-powered money that goes into 'excess reserves' of the commercial banks do not lead to any additional loans, and therefore, these excess reserves do not lead to the creation of deposits.
- When the required reserve ratio falls, there will be greater multiple expansions for demand deposits.
- Excess reserves ratio e is negatively related to the market interest rate i. If interest rate increases, the opportunity cost of holding excess reserves rises, and the desired ratio of excess reserves to deposits falls.
- An increase in time deposit-demand deposit ratio (TD/DD) means that greater availability of free reserves for banks and consequent enlargement of volume of multiple deposit expansion and monetary expansion.
- When the Reserve Bank lends to the governments under WMA /OD it results in the generation of excess reserves (*i.e.*, excess balances of commercial banks with the Reserve Bank).

# TEST YOUR KNOWLEDGE

## Multiple Choice Type Questions

1. *Reserve money is also known as*
   - *(a) central bank money*
   - *(b) base money*
   - *(c) high powered money*
   - *(d) all the above*
2. *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.*

3. *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.*

4. *M1 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*

5. *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*

6. *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*

7. *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.*

8. *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*

9. *If the behaviour of the public and the commercial banks is constant, then*

   (a) *the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank*

   (b) *the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money*

   (c) *the total supply of nominal money in the economy will vary inversely with the supply of high powered money*

   (d) *all the above are possible*

10. *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*

11. *The money multiplier and the money supply are*

   (a) *positively related to the excess reserves ratio* ***e***.

(b) *negatively related to the excess reserves ratio* ***e***.

(c) *not related to the excess reserves ratio* ***e***.

(d) *proportional to the excess reserves ratio e.*

12. *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.*

13. *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 the above*

14. *_____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)*

15. *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*

16. *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.*

17. *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*

18. *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*

19. *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.*

## ANSWERS

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | **(d)** | 2. | **(c)** | 3. | **(b)** | 4. | **(a)** | 5. | **(b)** | 6 | **(b)** |
| 7. | **(b)** | 8. | **(c)** | 9. | **(a)** | 10. | **(a)** | 11. | **(b)** | 12 | **(c)** |
| 13. | **(d)** | 14. | **(c)** | 15. | **(c)** | 16. | **(b)** | 17. | **(a)** | 18 | **(c)** |
| 19. | **(c)** | | | | | | | | | | |

# TEST YOUR KNOWLEDGE

## Multiple Choice Type Questions

1. *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*

2. *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*

3. *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*

4. *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*

5. *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*

6. *Which of the following statements 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*

7. *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)*

8. *_____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*

9. *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)*

10. *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*

11. *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*

12. *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*

13. *Which statement (s) is (are) true about Monetary Policy Committee?*

   *I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee*

*II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.*

*III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI*

*IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose*

*(a) I only*

*(b) I and II only*

*(c) III and IV*

*(d) III only*

## ANSWERS

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