

## **MONEY MARKET**

### **CA Foundation (NSET) - Paper - 4 Business Economics**

1. Reverse repo operation takes place when

- |   |  |
|---|--|
| a) banks borrow money in the overnight segment of the money market. | b) RBI borrows money from banks by giving them securities. |
| c) banks borrow money from RBI by giving them securities.           | d) RBI borrows money from the central government.          |

2. 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.

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|--------------------------------|--------------------------------|
| a) Statement (a) is incorrect. | b) Statement (c) is incorrect. |
| c) Statement (d) is incorrect. | d) Statement (b) is incorrect. |

3. 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. When repo rates decrease, it means that banks can now borrow money through open market operations (OMO).

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|------------------------------|------------------------------|
| a) Statement (a) is correct. | b) Statement (b) is correct. |
| c) Statement (d) is correct. | d) Statement (c) is correct. |

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

- |                          |                                |
|--------------------------|--------------------------------|
| a) private securities    | b) bonds and bills of exchange |
| c) government securities | d) debentures and shares       |

5. 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   | d) money as a means of transactions and   |

therefore, demand for money is only transaction demand for money.

therefore, demand for money is only transaction supply for money.

6. Real money is

- 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.

7. The quantity theory of money holds that

- a. changes in the general level of commodity prices are caused by changes in the quantity of money.
- b. there is strong relationship between money and price level and the quantity of money is the main determinant of the price.
- c. changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation.
- d. All of these

- a) Statement (b) is correct.
- b) Statement (a) is correct.
- c) Statement (d) is correct.
- d) Statement (c) is correct.

8. Speculative demand for money

- a) is determined by general price level
- b) is positively related to interest rates
- c) is negatively related to interest rates
- d) is not determined by interest rates

9. The Cambridge approach to quantity theory is also known as

- a) Keynesian Approach
- b) Fisher's theory of money
- c) Cash balance approach
- d) Classical approach

10. The size of the money multiplier is determined by

- a) all of these
- b) the currency ratio (c) of the public,
- c) the required reserve ratio (r) at the central bank, and
- d) the excess reserve ratio (e) of commercial banks.

11. 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 nature of expectations of people with respect to interest rates and bond prices.
- c) explains the positive relationship between money demand and the interest rate.
- d) explains the positive relationship between money demand and general price level.

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

- a) price level, opportunity cost, interest rate
- b) interest rate, opportunity cost, demand for money
- c) demand for money, opportunity cost, interest rate
- d) real income, opportunity cost, demand for money

13. The money multiplier and the money supply are

- a) negatively related to the excess reserves
- b) not related to the excess reserves ratio e.

ratio **e.**

c) proportional to the excess reserves ratio **e.**

d) positively related to the excess reserves ratio **e.**

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

a) a negative function of the nominal interest rate **i**

b) a positive function of transactions costs **c**

c) a positive function of income **Y** and the price level **P**

d) All of these

15. 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; decrease

b) increase; decrease

c) decrease; increase

d) increase; increase

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

a) increases the cost of capital and the real cost of borrowing for firms

b) decreases the cost of capital and the real cost of borrowing for firms

c) increases the cost of capital and the real cost of borrowing for firms and households

d) has no interest rate effect on firms and households

17. \_\_\_\_\_ considered demand for money is as an application of a more general theory of demand for capital assets.

a) Baumol

b) Milton Friedman

c) J M Keynes

d) James Tobin

18. The precautionary money balances people want to hold

a) as income elastic and not very sensitive to rate of interest.

b) are determined primarily by the current level of transactions.

c) as income inelastic and very sensitive to rate of interest.

d) are determined primarily by the level of transactions they expect to make in the future.

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

a) regulate the level of production and prices

b) regulate the movement of credit to the corporate sector

c) regulate the availability, cost and use of money and credit

d) regulate the exchange rate and keep it stable

20. M1 is the sum of

a) currency in circulation + demand deposits of banks + Other deposits with the RBI.

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

c) currency in circulation + Bankers' deposits

d) currency and coins with the people +

with the RBI + Other deposits with the RBI.

demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.

21. \_\_\_\_\_ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.

a) OMO

b) Repo

c) SLR

d) CRR

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

a) people will expect the interest rate to rise and bond price to fall in the future.

b) people will demand more money because the capital gain on bonds would be less than return on money.

c) people will demand more money because the capital gain on bonds would be more than return on money.

d) people will expect the interest rate to fall and bond price to rise in the future.

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

a) Nothing precise can be said.

b) a decrease in the money supply.

c) an increase in the money supply.

d) an increase in demand deposits.

24. 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.

a) Statement (d) is correct.

b) Statement (a) is correct.

c) Statement (b) is correct.

d) Statement (c) is correct.

25. The main objective of monetary policy in India is \_\_\_\_\_.

a) reduction of poverty and unemployment

b) economic growth with price stability

c) overall monetary stability in the banking system

d) reduce food shortages to achieve stability

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

a) discount rate

b) deposit ratio

c) money multiplier

d) required reserve ratio

27. Reserve Money is composed of

a) currency in circulation + demand and time deposits of banks + Other deposits with the RBI.

b) currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.

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

d) currency in circulation + demand deposits  
of banks + Other deposits with the RBI.

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

a) medium of exchange, unit of account, store  
of value

b) medium of exchange, unit of account,  
income distribution

c) unit of account, store of value, provide  
yields

d) medium of exchange, price control, store of  
value

29. The monetary transmission mechanism refers to

a) the process or channels through which the  
evolution of monetary aggregates affects the  
level of sectors and interest

b) the process or channels through which the  
evolution of monetary aggregates affects the  
level of product and prices

c) how money gets circulated in different  
sectors of the economy post monetary  
policy

d) the ratio of nominal interest and real interest  
rates consequent on a monetary policy

30. The primary source of money supply in all countries is

a) the Central bank of the country

b) the Federal Reserve

c) the Bank of England

d) the Reserve Bank of India

31. Reserve money is also known as

a) central bank money

b) high powered money

c) base money

d) all of these

32. 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.

a) Statement (a) is correct.

b) Statement (c) is correct.

c) Statement (b) is correct.

d) Statement (d) is correct.

33. In India, the term **Policy rate** refers to

a) the fixed repo rate quoted for sovereign  
securities in the overnight segment of  
Marginal Standing Facility (MSF).

b) the fixed repo rate quoted for sovereign  
securities in the overnight segment of  
Liquidity Adjustment Facility (LAF).

c) The CRR and SLR prescribed by RBI in its  
monetary policy statement.

d) The bank rate prescribed by the RBI in its  
half yearly monetary policy statement.

34. 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 all the above are possible.
- d. all of these

- a) Statement (c) is correct.
- b) Statement (a) is correct.
- c) Statement (d) is correct.
- d) Statement (b) is correct.

35. Demand for money is

- a) Direct demand
- b) Derived demand
- c) Real income demand
- d) Inverse demand

36. 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.

- a) Statement (d) is correct.
- b) Statement (c) is correct.
- c) Statement (b) is correct.
- d) Statement (a) is correct.

37. 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 remain constant
- b) the opportunity costs of money holdings - i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- decline and vice versa
- c) the opportunity costs of money holdings - i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- rises and vice versa
- d) all of these

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

- a) The Marginal Standing Facility (MSF)
- b) Statutory Liquidity Ratio (SLR)
- c) Market Stabilisation Scheme (MSS)
- d) Liquidity Adjustment Facility (LAF)

39. If commercial banks reduce their holdings of excess reserves

- a) the money supply increases.
- b) the monetary base falls.
- c) the monetary base increases.
- d) the money supply falls.

40. The currency ratio represents

- a) the behaviour of the public.
- b) the behaviour of central bank in the issue of currency.

c) the behaviour of central bank in respect cash reserve ratio.

d) the behaviour of commercial banks in the country.

41. 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 higher excess reserve ratio (e)

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

d) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)

42. 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 the purpose.

a) I only

b) III and IV

c) I and II only

d) III only

43. 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 these as the determinants of money supply are different.

a) Statement (c) is correct.

b) Statement (d) is correct.

c) Statement (b) is correct.

d) Statement (a) is correct.

44. Banks in the country are required to maintain deposits with the central bank

a) to meet the demand for money by the banking system.

b) to meet the money needs for the day to day working of the commercial banks.

c) to provide the necessary reserves for the functioning of the central bank.

d) to meet the central bank prescribed reserve requirements and to meet settlement obligations.

45. The Monetary Policy Framework Agreement is on

a) the maximum repo rate that RBI can charge from government.

b) the maximum reverse repo rate that RBI can charge from the commercial banks.

c) the maximum repo rate that RBI can charge from the commercial banks.

d) the maximum tolerable inflation rate that RBI should target to achieve price stability.

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

- a) The credit multiplier  
b) The excess reserve ratio (e)  
c) The currency ratio  
d) The currency ratio (c)

47. The supply of money in an economy depends on

- a) the decision of the central bank and the supply responses of the commercial banking system.  
b) the decision of the central bank in respect of high powered money.  
c) all of these.  
d) the decision of the central bank based on the authority conferred on it.

48. Calculate currency with the Public from the following data (₹ Crore)

1.1 Notes in Circulation	2496611
1.2 Circulation of Rupee Coin	25572
1.3 Circulation of Small Coins	743
1.4 Cash on Hand with Banks	98305

49. Calculate Narrow Money ( $M_1$ ) from the following data

Currency with public	₹ 90000 crore
Demand Deposits with Banking System	₹ 200000 crore
Time Deposits with Banking System	₹ 220000 crore
Other Deposits with RBI	₹ 280000 crore
Saving Deposits of Post office saving banks	₹ 60000 crore

50. Calculate M2 from the following data

	(₹ Crore)
Notes in Circulation	2420964
Circulation of Rupee Coin	25572
Circulation of Small Coins	743
Post Office Saving Bank Deposits	141786
Cash on Hand with Banks	97563
Deposit Money of the Public	1776199
Demand Deposits with Banks	1737692
'Other' Deposits with Reserve Bank	38507
Total Post Office Deposits	14896
Time Deposit with Banks	178694



51. Compute credit multiplier if the required reserved ratio is 10% and 12.5% for every ₹ 1,00,000 deposited in the banking system. What will be the total credit money created by the banking system in each case?
52. If the required reserve ratio is 10 percent, currency in circulation is ₹ 400 billion, demand deposits are ₹ 1000 billion, and excess reserves total ₹ 1 billion, find the value of money multiplier.