Sampurna 2026

Money Market

Notes

Unit 1 :
The Concept of Money Demand: Important Theories

1. Fiat money is materially_______ but has ________simply because a nation collectively agreed to ascribe a value to it.
(a) Worthless, value
(b) Valuable, worthless
(c) Transparent, liquid
(d) Liquid, exchangeability

2. Which of the following is Not a Part of general characteristics that money should possess in order to make it serve its function as money?
(a) Generally Acceptable and possessing uniformity
(b) Durable or long-lasting
(c) Portable and effortlessly recognizable
(d) Easily counterfeit able

3. 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

The Demand for Money

4. Demand for money is:
(a) Derived demand
(b) Direct demand
(c) Real income demand
(d) Inverse demand

5. 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

6. The transitionary demand for money is directly proportional to and is a positive function of
[June 2024]
(a) Level of price
(b) Level of income
(c) Level of demand
(d) Level of interest rate

7. The quantity which people desire to hold is________ the income. proportional to
(a) Directly (b) Inversely
(c) Regressive (d) None of these

8. The Demand for money depends upon prevailing price level. _____ the prices, ________should be the holding of money.
(a) Lower, Higher
(b) Higher, Lower
(c) Higher, Higher
(d) Lower, Lower

9. Which of the following innovations, has reduced the need for holding liquid money?
(a) Internet Banking
(b) Application based transfer
(c) Automated Teller Machines
(d) All of the above

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

(a) Directly (b) Inversely

(c) Progressively (d) None of the above

Theories of Demand for money

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

(a) Quantity theory of money

(b) Cash Balance Approach

(c) Keynesian theory of Demand for money

(d) None of these

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

(a) MV = PT

(b) MV + M'V' = P'T'

(c) MV = PT + PT

(d) MV + M'V' = PT + P'T'

Measurement of money supply

13. If Velocity = 20, Average Price = 120 and volume of transactions T = 150 Cr then money supply will be [June 2024]

(a) 2500 Cr (b) 25 Cr

(c) 900 Cr (d) 1000 Cr

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

(a) MV: PT (b) PT, MV

(c) PT; MV + M'V' (d) MV +M', V'; PT

15. The Cambridge equation is: M^d = K.P.Y.

In above equation, _____ is exogenous.

(a) M^d (b) K

(c) P (d) Y

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

M_d = KPY.

In this equation, PY stands for:

(a) National Income

(b) Real National Income

(c) Nominal Income

(d) Real Income.

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

(a) M_d

(b) K

(c) P

(d) Y

18. 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

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

(a) Demand Preference Theory

(b) Liquidity Preference Theory

(c) Preference Demand Theory

(d) Preference Liquidity Theory

20. People's desire to hold cash in order to be equipped to exploit any attractive investments opportunity requiring cash expenditure reflects ____________ [June 2024]

(a) Transaction Motive

(b) Speculative motive

(c) Precautionary motive

(d) Personal and business exchange

21. According to John Maynard Keynes, the transactions demand for money depends only on the________ and not influenced by the_______.

(a) Rate of Interest, level of Income
(b) Level of Income, Rate of Interest
(c) Psychology of individual, Real Income
(d) Psychology of individual, Rate of Interest

22. 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

23. Prof. J.M. Keynes regarded the Precautionary balances as income _______and by itself not very sensitive to_______.

(a) Elastic, rate of interest
(b) Inelastic, rate of interest
(c) Elastic, level of income
(d) Inelastic, level of income

24. 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

25. Under liquidity preference theory, Keynes assumed that the expected return on money is _____________ while the expected return on bonds are________ and________.

(a) Zero, interest payment, expected rate of capital gain
(b) One, interest payment, expected rate of capital gain
(c) Zero, fixed interest, fixed loss
(d) None of the above

26. According to Keynes, if the cur-rent 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

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

(a) Only government bonds
(b) Wholly of cash
(c) Both cash and bonds equally
(d) Either cash or bonds

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

(a) Liquidity trap (b) Monetary trap
(c) Precautionary trap (d) Stimulus trap

29. What does the concept of liquidity trap mean? [June 2024]

(a) Liquidity trap is a situation where the desire to hold bonds is very low and approaches zero; and the demand to hold money in liquid form as an alternative approaches infinity
(b) Even if the public fear adverse events (deflation, war), then they prepare to hold only bonds at a give rate of interest.
(c) The speculative money demand curve becomes parallel to the Y axis
(d) None

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

(a) Unable (b) Able

(c) Perfectly able (d) Very effective

Post Keynesian Developments in the Theory of demand for Money

31. 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

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

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

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

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

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

33. 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

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

(a) Total wealth, discount, five

(b) Total wealth, Interest, five

(c) Permanent wealth, Interest, six

(d) None of these

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

(a) Negatively (b) Positively

(c) Regressively (d) Not

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

(a) Less, more (b) More, less

(c) Less, positive (d) More, negative

37. The demand for money as behavior towards "aversion to risk" was propounded by:

(a) Fisher (b) Marshall

(c) Friedman (d) Tobin

UNIT 2 : CONCEPT OF MONEY Supply

Money Supply : Rationale and Sources

38. Money Supply is a ____________ variable.

(a) Flow (b) Stock

(c) Both (a) and (b) (d) None of the above

39. Money Supply does not include stock of money held by the __________ as well as _________ of country.

(a) Public, government

(b) Public, banking system

(c) Government, banking system

(d) Public, banks

40. Which one of the following is the feature of money supply?
- (a) Money includes money held by public only
- (b) Money does not include money-creating sector (suppliers of money)
- (c) Money is a stock concept, as it is concerned with a particular point of time
- (d) All of the above

41. 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

42. 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

43. 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

44. Which of the following is a fiat money? [June 2024]
- (a) Gold Coins
- (b) Silver Coins
- (c) Currency Notes
- (d) Gold coins, Silver Coins as well as currency notes

45. The currency issued by the Central Bank is "FIAT MONEY" and is backed by supporting _________ and its value is guaranteed by the ____________.
- (a) Currency, central Bank
- (b) Currency, government
- (c) Reserves, government
- (d) Reserves, central bank

46. "Money" consists of currency and __________, while "High Powered Money". Consists of currency and ___________.
- (a) Demand deposits, cash reserves with banks
- (b) Cash reserves with Banks, demand Deposits
- (c) Public money, paper money
- (d) Paper money, public money

Measurement of Money Supply

47. Calculate broad money M3? [June 2024]
- (a) Currency with public + demand deposits with banks
- (b) Currency with public + demand deposits with banks = net time deposit with the banking system
- (c) Currency with public + Savings with government banks
- (d) Currency with public + Demand Deposits with banks + other deposits with RBI

48. Reserve money is also known as.
- (a) Central bank money
- (b) Base money
- (c) High powered money
- (d) All of the above

49. 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

50. M_1 is the sum of:

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

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

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

(d) none of the above

51. Consider the following data and answer.

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

What is the amount of Narrow Money (M_1)?

(a) ₹ 2,85,000 crores

(b) ₹ 3,15,000 crores

(c) ₹ 3,95,000 crores

(d) None of the above

52. Consider the following data and answer.

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

The calculated value of M_2 is __________

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

53. Consider the following data and answer.

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

The value of M, will be__________

(a) ₹ 2,85,000 crores

(b) ₹ 3,95,000 crores

(c) ₹ 3,15,000 crores

(d) None of the above

54. Consider the following data (crore)?

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

What is the currency with the Public?

(a) ₹ 26,09,005 crores

(b) ₹ 26,49,720 crores

(c) ₹ 26,50,800 crores

(d) ₹ 25,51,600 crores

55. Calculate currency with public [June 2024]

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 banks	80,615

(a) 22,80,885 Crores (b) 24,42,115 Crores
(c) 22,45,885 Crores (d) 23,62,000 Crores

56. Consider the following data:
M_1 ₹ 42,90,550 crores
M_2 ₹ 44,42,695 crores
Calculate the value of Post Office Saving Bank Deposits.
(a) ₹ 87,33,245 (b) ₹ 1,52,145
(c) ₹ 3,04,290 (d) None of these

Money Multiplier Approach

57. Money Multiplier means [June 2024]
(a) It decreases the total money supply for a 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

58. 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), low-er required reserve ratio (r) and lower excess reserve ratio (e)
(d) None of the above

59. The required reserved ratio is 10% for every ₹ 2,00,000 deposited in the banking system. What will be the Credit Multiplier and Credit Creation?
(a) 10, ₹ 20,00,000 (b) 10, ₹ 20,000
(c) 8, ₹ 20,00,000 (d) 8, ₹ 20,000

60. For initial deposit of ₹ 5,00,000, the credit creation is calculated at ₹ 40,00,000. What is RRR (Required Reserved Ratio)?
(a) 8
(b) .08
(c) 12.5%
(d) Cannot be calculated

61. When there are excess reserves, the money multiplier (m) is expressed as__________.
(a) $m = \frac{1+c}{r+e+c}$ (b) $m = \frac{1+r}{r+e+c}$
(c) $m = \frac{1+e}{r+e+c}$ (d) $m = \frac{c}{r+e+c}$

62. Which formula is used to find -out Money Supply (m) where:
r = required reserve ratio
c = currency - deposit ratio (C/D)
e = ratio of Excess Reserves to De. posits H = Stock of high powered money
(a) $M = \frac{1+c}{r+e+c} + H$
(b) $M = \frac{1+C}{r+e+c} \times H$
(c) $M = \frac{1+H}{r+e+c} + C$
(d) $M = \frac{1+H}{r+e+c} \times C$

63. If M is the money supply, m is the money multiplier and MB is the monetary base or high-powered money, then which of the following equation is correct?
(a) MB = M × m
(b) m = MB × M
(c) M = MB × m
(d) M = MB ÷ m

64. 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

65. 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

66. __________ 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)

67. Consider the following data:

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

The value of money multiplier will be _________.

(a) 1.74 (b) 2.74
(c) 1.79 (d) 2.79

68. The __________ the reserve of ration, the __________ of each deposit bank loan out and the __________ the money multiplier.

(a) Higher, less, smaller
(b) Higher, high element, smaller
(c) Smaller, less, smaller
(d) None of these

69. 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

70. 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

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

(a) Behaviour of the public
(b) Excess reserve ratio of the banks
(c) Required reserve ratio set by the Central Bank
(d) All of the above

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

(a) Positively (b) Negatively
(c) Uniformly (d) Not

The Money Multiplier Approach to Supply of Money

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

(a) Milton Friedman
(b) Milton Friedman and Anna Schwartz
(c) Milton Friedman and Irvin fisher
(d) Milton Friedman and Marshall

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

(a) Negatively (b) Positively
(c) Not (d) Progressively

75. Considering all other variables remain the same, If ratio of cash re-serves to deposits (reserve ratio) increases, then _________will decrease.

(a) Deposits
(b) Money Supply
(c) Reserves
(d) High-powered money

76. When reserve ratio (r) is 8%, the money multiplier is calculated at 12.58. If the reserve ratio is increased - to 12%, the value of money multiplier will be__________.

(a) Less than 2.58
(b) More than 2.58
(c) 2.58
(d) Cannot be decided

Monetary Policy and Effect of Government Expenditure on - Money Supply

77. Open Market purchases of government securities by RBI will [June 2024]

(a) Reduce the Money Supply
(b) Reduce the reserves
(c) Increase reserves
(d) Reduce the reserves and there by reduces the money supply

78. The credit creation process by the banking system in the country will create money to the tune of Δmoney supply = $\frac{1}{R} \times \Delta$ Reserves.

It holds true, when it assumed that ___________.

(a) Banks do not hold excess reserves
(b) People do not hold more currency than before
(c) There is demand for loans from businesses
(d) All of the above

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

(a) Ways and Means Advances (WMA)
(b) Overdraft facility (OD)
(c) Both (*a*) and (*b*)
(d) None of the above

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

(a) 0.2 (b) 0.8
(c) 1.2 (d) 5

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

(a) 100 - Required Reserve Ratio
(b) 100 + Required Reserve Ratio
(c) 100 × Required Reserve Ratio
(d) $\frac{1}{\text{Required Reserve Ratio}}$

82. The credit multiplier is also referred to as the __________.

(a) Deposit multiplier
(b) Deposit expansion multiplier
(c) Both (*a*) and (*b*)
(d) None of the above

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

(a) Credit multiplier
(b) Deposit multiplier
(c) Deposit Expansion
(d) All of the above

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

(a) ₹ 80 crores (b) ₹ 800 crores
(c) ₹ 8000 crores (d) None of these

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

(a) ₹ 16,800 (b) ₹ 2,100
(c) ₹ 18,900 (d) None of these

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

(a) 15% (b) 12.5%
(c) 10% (d) 7.5%

UNIT 3: MONETARY POLICY

The Monetary Policy Framework

87. Expansionary monetary policy of government directs towards _____________. [Dec. 2023]

(a) Reduction in inflation
(b) Rising of aggregate demand
(c) Decline in employment rate
(d) Increase in interest rates

88. Which of the following is not a channel of monetary transmission mechanism? [June 2024]

(a) Savings and Investments Channel
(b) Cash Flow Channel
(c) Exchange rate Channel
(d) International Trade Channel

89. 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

90. 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 or-der 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

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

(a) The interest rate channel
(b) The exchange rate channel
(c) The quantum channel and the asset price channel
(d) All of the above

92. Which of the following statement is correct?

(a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same
(b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself
(c) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)
(d) None of the above

93. Which of the following Statements is incorrect?
(a) Quantitative instruments are general in nature
(b) Quantitative instruments affects all the sectors making use of bank credit
(c) Quantitative controls are designed to regulate the direction of credit
(d) Quantitative Controls are also known as traditional methods of control
(d) Selective credit control

94. ________is the interest rate at which RBI lends long-term funds to banks.
(a) Interest Rate (b) Bank Rate
(c) Repo Rate (d) Marginal Rate

95. RBI provides financial accommodation to the commercial banks through repos/reverse repos under:
(a) Market Stabilization Scheme (MSS)
(b) The Marginal Standing Facility (MSF)
(c) Liquidity Adjustment Facility (LAF)
(d) Statutory Liquidity Ratio (SLR)

96. 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)

97. ___________ is a money market instrument, which enables collateralized short-term borrowing and lending through sale/purchase operations in debt instruments.
(a) OMO (b) CRR
(c) SLR (d) Repo

98. 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

99. The Monetary Policy Frame-work 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

100. 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

101. Monetary Policy Committee (MPC) determines the policy rate to achieve the inflation target through debate and majority vote by a panel of experts. How many members does this MPC consists of?
(a) Three members
(b) Four members
(c) Five members
(d) Six members

102. Under ____________ the Government of India borrows from the RBI (Such borrowing being additional to its normal borrowing requirements) and issues treasury bills/dated securities.
(a) Market Stabilization Scheme (MSS)
(b) Minimum Statutory Scheme (MSS)
(c) Marginal Standing Facility (MSF)
(d) Minimum Statutory Facility (MSF)

103. ____________ is defined as an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.
(a) Reverse Repo (b) Repo Rate
(c) Bank Rate (d) MSF

104. The Monetary Policy Frame-work Agreement is an agreement reached between the Government of India and the Reserve Bank of India (RBI) to keep the Consumer Price Index (CPI) inflation rate between ____________.
(a) 1 to 5 per cent (b) 2 to 6 per cent
(c) 3 to 5 per cent (d) 4 to 6 per cent

105. Which of the following is not a characteristic of money? [Jan-2025]
(a) Generally acceptable
(b) Effortlessly Recognizable
(c) Easily Transportable
(d) Easily Reproducible by People

106. The currency issued by the Central Bank is known as ___________ and is backed by supporting reserves and its value is a sovereign guarantee. [Jan-2025]
(a) Real Money
(b) Credit Money
(c) Fiat Money
(d) Sovereign bonds

107. 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. [Jan-2025]
(a) ₹ 800 cr. (b) ₹ 200 cr.
(c) ₹ 400 cr. (d) ₹ 900 cr.

108. Calculate Narrow Money M1 from the following data. [Jan-2025]

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.
Othe 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.

109. Liquidity Adjustment Facility (LAF) was introduced by RBI on the basis of the recommendation of the _______ Committee on the reforms in banking sector. [Jan-2025]
(a) Tandon (b) Narsimham
(c) Chore (d) Basel

110. Money created by the commercial banks is called _______ [Jan-2025]
(a) Real money
(b) High powered money
(c) Fiat Money
(d) Credit Money

111. Under the concept of money supply, the term ‘public’ do not include ________ [Jan-2025]
(a) Households
(b) Institutions
(c) Government and Banking system
(d) Firms

112. Compute the total credit money created by the banking system if the required reserved ratio is 15% for every ₹ 12,00,000 deposited in the banking system? [Jan-2025]

(a) ₹ 1,00,00,000

(b) ₹ 80,00,000

(c) ₹ 1,25,00,000

(d) ₹ 1,50,00,000

113. Calculate currency with the public from the following data: [Jan-2025]

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.

114. ________ is a penal rate at which RBI lends money to banks, above the rate available under the rep policy. [Jan-2025]

(a) Marginal standing facility rate

(b) Bank Rate

(c) Repo Rate

(d) Reverse repo rate

115. What is the term Y represent in the expression Md = kPY? [May-2025]

(a) Real National Income

(b) Price Level

(c) Money Supply

(d) Interest Rate

116. Banks availing Marginal Standing Facility Rate can use a maximum of much percentage of Statutory Liquidity Ratio Securities? [May-2025]

(a) 1%

(b) 2%

(c) 3%

(d) 4%

117. Calculate currency with public from following Data (₹ in lakhs) [May-2025]

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

(a) ₹ 3,02,384

(b) ₹ 2,62,548

(c) ₹ 2,53,876

(d) ₹ 2,15,858

118. 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 ? [May-2025]

(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

119. Broad money includes currency deposits with an agreed maturity of up to 24 years, deposits redeemable at notice up to 3 months and repurchase agreements, money market fund shares/units and debt security up to 2 years. [May-2025]

(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

120. Which of the following is NOT included in M1 ? [May-2025]

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

121. Liquidity trap occurs when : [May-2025]

(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.

122. Which of the following is NOT a quantitative tool of monetary policy? [May-2025]

(a) Cash Reserve Ratio (CRR)
(b) Statutory Liquidity Ratio (SLR)
(c) Open Market Operations OMO)
(d) Liquidity Adjustment Facility (LAF)

123. Which of the following expressions is true? [May-2025]

(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

124. Which of the following is NOT one of the four determinants of the Friedman's demand for money? [May-2025]

(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

Answer Key

1.	(a)	32.	(b)	63.	(c)	200.	(b)
2.	(d)	33.	(a)	64.	(a)	201.	(c)
3.	(a)	34.	(a)	65.	(c)	202.	(c)
4.	(a)	35.	(b)	66.	(c)	203.	(d)
5.	(d)	36.	(a)	67.	(d)	204.	(a)
6.	(b)	37.	(d)	68.	(a)	205.	(b)
7.	(a)	38.	(b)	69.	(a)	206.	(c)
8.	(c)	39.	(c)	70.	(c)	207.	(d)
9.	(d)	40.	(d)	71.	(d)	208.	(a)
10.	(b)	41.	(c)	72.	(b)	209.	(a)
11.	(a)	42.	(b)	73.	(b)	210.	(b)
12.	(b)	43.	(b)	74.	(a)	19.	(d)
13.	(c)	44.	(c)	75.	(b)	20.	(c)
14.	(c)	45.	(c)	76.	(a)	21.	(c)
15.	(d)	46.	(a)	77.	(c)	22.	(a)
16.	(c)	47.	(b)	78.	(d)	25.	(b)
17.	(b)	48.	(d)	168.	(c)	26.	(d)
18.	(a)	49.	(b)	171.	(d)	27.	(c)
19.	(b)	50.	(a)	172.	(d)	28.	(b)
20.	(b)	51.	(a)	173.	(c)	29.	(b)
21.	(b)	52.	(c)	174.	(d)	30.	(a)
22.	(a)	53.	(b)	175.	(c)	42.	(a)
23.	(a)	54.	(d)	176.	(b)	43.	(a)
24.	(c)	55.	(a)	177.	(b)	44.	(b)
25.	(a)	56.	(b)	182.	(b)	46.	(a)
26.	(c)	57.	(c)	187.	(d)	47.	(d)
27.	(b)	58.	(c)	188.	(b)	48.	(c)
28.	(a)	59.	(a)	189.	(a)	49.	(b)
29.	(d)	60.	(c)	190.	(d)	50.	(d)
30.	(a)	61.	(a)	191.	(b)	51.	(a)
31.	(a)	62.	(b)	192.	(c)	53.	(c)

Hints and Solution

1. **(a)**

2. **(d)**

3. **(a)**

4. **(a)**

5. **(d)**

6. **(b)**

7. **(a)**
   It is directly proportional because higher the income of individuals, higher the expenditure; richer people hold more money to finance their expenditure.

8. **(c)**

9. **(d)**

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

11. **(a)**

12. **(b)**

13. **(c)**

14. **(c)**

15. **(d)**

16. **(c)**

17. **(b)**

18. **(a)**

19. **(b)**

20. **(b)**

21. **(b)**

22. **(a)**

23. **(a)**

24. **(c)**

25. **(a)**

26. **(c)**

27. **(b)**

28. **(a)**

29. **(d)**

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

31. **(a)**

32. **(b)**

33. **(a)**

34. **(a)**

35. **(b)**

36. **(a)**

37. **(d)**

38. **(b)**

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

40. **(d)**

41. **(c)**

42. **(b)**

43. **(b)**

44. **(c)**

45. **(c)**

46. **(a)**

47. **(b)**

48. **(d)**

49. **(b)**

50. **(a)**

51. **(a)**
M_1 = Currency with Public + Demand Deposits with banking system + Other deposit with RBI
= 45,000 + 1,00,000 + 1,40,000
= ₹ 2,85,000 crores
M_2 = M_1 + Saving deposit with Post Office Saving Banking
= 2,85,000 + 30,000 = ₹ 3,15,000 crores
M_3 = M_1 + Time Deposit with the Banking System
= 2,85,000 + 1,10,000
= 3,95,000 crores

52. **(c)**

53. **(b)**

54. **(d)**
Currency with the Public
= 26,09,005 + 40,715 + 1,080 – 99,200
= ₹ 25,51,600 Crores

55. **(a)**
Currency with the public = Notes with public + Currency of small coins Currency of rupee coins - Cash in hand with banks = 23,26,500 + 500 + 34,500 - 80,615 22,80,885 Crores

56. **(b)**
M_2 = M + Post Office Saving Bank Deposits
⇒ Post Office Saving Bank Deposit = $M_2 – M_1$
= 44,42,69542,90,550
= 1,52,145 crores

57. **(c)**
The money multiplier is the ratio of the total money supply to the monetary base, indicating how much the money supply increases with an increase in the monetary base.

58. **(c)**

59. (a)

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

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

Credit Creation = Initial Deposits × $\frac{1}{\text{Required Reserve Ratio}}$

$= ₹\ 2,00,000 \times \frac{1}{0.10}$

$= ₹\ 20,00,000$

60. (c)

Credit Creation = Initial Deposits × Credit Multiplier

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

$= \frac{40,00,000}{5,00,000} = 8$

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

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

61. (a)

62. (b)

63. (c)

64. (a)

65. (c)

66. (c)

67. (d)

Money Supply (M) = Currency + Deposits

= ₹ 400 + ₹ 1000 = ₹ 1400 Billion

Currency-Deposit Ratio = $\frac{\text{Currency}}{\text{Deposits}}$

$= \frac{₹\ 400}{₹\ 1,000} = 0.4$

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

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

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

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

68. (a)

69. (a)

70. (c)

71. (d)

72. (b)

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

73. (b)

74. (a)

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

75. (b)

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

76. (a)

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

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

77. (c)

78. (d)

79. (c)

80. **(d)**

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

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

81. **(d)**

82. **(c)**

83. **(d)**

84. **(c)**

Required Reserve Ratio = 10% or 0.10

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

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

Total Deposit = Initial Deposit × Money Multiplier

= 800 × 10

= ₹ 8000 Crores.

85. **(b)**

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

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

Total Deposit Created = ₹ 16,800

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

= ₹ 2100 crores.

86. **(b)**

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

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

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

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

= 12.5%

87. **(b)**

An Expansionary Monetary Policy of government is directed towards Rising of aggregate demand. This type of policy typically involves lowering interest rates to stimulate economic growth.

88. **(d)**

89. **(b)**

90. **(a)**

91. **(d)**

92. **(b)**

93. **(c)**

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

94. **(b)**

95. **(c)**

96. **(c)**

97. **(d)**

98. **(a)**

99. **(b)**

100. **(c)**

101. **(d)**

102. **(a)**

103. **(a)**

104. **(b)**

105. **(d)**

106. **(c)**

107. **(c)**

108. (a)

109. (b)

110. (d)

111. (c)

112. (b)

113. (b)

114. (a)

115. (a)

116. (a)

117. (b)

118. (a)

119. (d)

120. (c)

121. (b)

122. (d)

123. (a)

124. (c)