

Chapter 3 – Money and Banking

Question 1

Central Bank is a/an,

- Apex Bank
- Rural Bank
- Regional bank
- Commercial Bank

Answer: Apex Bank

Question 2

Legal service ratio is equal to,

- CRR/SLR
- CRR – SLR
- SLR – CLR
- CRR + SLR

Answer: CRR + SLR

Question 3

Calculate the value of money multiplier and the total deposit created if the initial amount is ₹. 700 crores and LRR is 10%.

Answer: Value of money multiplier = $1/\text{LRR}$ which is equal to $1/0.1 = 10$

Initial deposit was ₹. 700 crores

Thus, Total deposit will be Initial Deposit x Money Multiplier

= 700×10

= ₹. 7,000 crores

Question 4

Calculate LRR, if the initial deposit of ₹. 500 crores lead to the establishment of total deposits of ₹. 4,000 crores.

Answer: Money Multiplier = Total deposits / Initial deposits

= $4,000 / 500 = 4$

Thus, money multiplier = $1/\text{LRR}$

$$8 = 1/\text{LRR}$$

$$\text{LRR} = 1.25 \text{ or } 12.5$$

Question 5

If total deposits created by the commercial banks are ₹. 12,000/-, LRR is 25%. Calculate the initial deposit.

Answer: Money Multiplier = $1/\text{LRR} = 1/0.25 = 4$

Initial deposit = Total deposit / Money Multiplier

$$= 12,000/4$$

$$= ₹. 3,000/-$$

Question 6

One of the measures of the money supply is,

- O1
- N1
- M1
- P1

Answer: M1

Question 7

Money is a medium of,

- Communication
- Barter
- Exchange
- Speculation

Answer: Exchange

Question 8

Money is something that is,

- Universally accepted
- Locally accepted
- Accepted by banks
- Regionally accepted

Answer: Universally accepted

Question 9

One drawback of barter exchange is,

- Lack of trust
- Lack of coincidence of wants
- Lack of double coincidence of wants
- Lack of goods

Answer: Lack of double coincidence of wants

Question 10

Money overcomes the issues of the barter system.

- Can't say
- Seldom
- 0
- 1

Answer: 1