

Commercial Banks - Reason-Based (Comp. of Sub)

Q.1. The commercial banks generate their profits by way of 'spread'.

Ans. True. The commercial banks generate their profits by way of 'spread' which is the difference between the rate of interest charged by the banks for the loans they offer and the rate of interest paid by the banks for the deposits they accept.

Q.2. All financial institutions are banking institutions.

Ans. False. All financial institutions are not banking institutions, even when all banking institutions are financial institutions. Example: LIC is a financial institution, but not a banking institution. A financial institution is a banking institution only when: (i) it accepts deposits from the people, and (ii) offers loans to the people.

Q.3. Loans offered by the commercial banks are a part of the cash reserves of the commercial banks.

Ans. False. Loans offered by the commercial banks are a part of demand deposits of the commercial banks.

Q.4. Higher cash deposit ratio implies higher credit creation capacity of the commercial banks.

Ans. True. Higher cash deposit ratio would lead to greater cash reserves of the commercial banks. Implying higher credit creation capacity of the commercial banks.

Q.5. Both primary and secondary deposits are demand deposits.

Ans. True. Both primary and secondary deposits are demand deposits because these can be withdrawn on demand by writing cheques.

Q.6. If reserve requirement = 25% of deposits, the credit multiplier = 10.

Ans. False. If reserve requirement = 25% of deposits,

$$\text{Credit Multiplier} = \frac{1}{\text{Reserve Requirement}} = \frac{1}{25\%} = 4.$$

Q.7. CRR and SLR are the two components of LRR.

Ans. False. CRR and SLR are not the two components of LRR. These are the two variants of LRR. These cannot be added up to find LRR.

Q.8. Total demand deposits of the commercial banks is equal to the difference between the primary deposits and secondary deposits of the commercial banks.

Ans. False. Total demand deposits of the commercial banks is equal to the sum total of primary deposits and secondary deposits of the commercial banks.