



INDIAN SCHOOL AL WADI AL KABIR

MACRO ECONOMICS

1. Money and Banking

1. The main function of a commercial bank is:
 - (a) Credit control
 - (b) Loaning to other banks
 - (c) Accept deposits from customers
 - (d) All the above
2. Commercial banks:
 - (a) Issue currency notes
 - (b) Accepts deposits from customers
 - (c) Provide loans to customers
 - (d) Only (b) and (c)
3. What is true for the Central Bank?
 - (a) Apex Bank of the Country
 - (b) Ownership of the Government
 - (c) Regulates the entire banking system in the country
 - (d) All the above
4. Which of the following is the function of the Central Bank?
 - (a) Monopoly of Note Issue
 - (b) Banker of the Government
 - (c) Custodian of Foreign Exchange Reserves
 - (d) All the above
5. Which type of currency is issued by Central Bank?
 - (a) Currency
 - (b) Credit Money
 - (c) Coins
 - (d) All of these
6. Which is the major objective of credit control?
 - (a) To maintain Price Stability
 - (b) To stabilize Exchange Rate
 - (c) To production and Employment
 - (d) All the above
7. Which is not a quantitative method of credit control?
 - (a) Bank Rate
 - (b) Moral Suasion
 - (c) Open Market Operations
 - (d) Change in CRR
8. Every bank is required to maintain a fixed percentage of its assets in the form of cash is called:
 - (a) Cash Reserve Ratio
 - (b) Statutory Liquidity Ratio

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

9. Reserve Bank of India was established in :
- (a) 1947
 - (b) 1935
 - (c) 1937
 - (d) 1945
10. Which of the following is a qualitative method of credit control?
- (a) Variation in cash reserve ratio of banks
 - (b) Restriction on consumer credit
 - (c) Open market operations
 - (d) Variation in bank rate

QUESTIONS:

1. What do you mean by high powered money?
2. What are demand deposits?
3. What is meant by bank rate?
4. Bring out the role of central bank as the controller of money supply or credit.
5. State any two advantages of digital rupee.
6. State the formula to compute credit multiplier.
7. Explain the role of central bank as government's agent and advisor.
8. Explain the role of repo rate in controlling money supply.
9. Explain the following functions of the central bank of India.
 - a. Bank of issue
 - b. Banker's bank
10. "In a country, routine economic operations rely on a stable medium, to facilitate transactions for maintaining smooth economic activities."
Discuss briefly the indicated function of money.
11. Explain the components of legal reserve ratio.
12. Elaborate any two instruments of credit control as exercised by the RBI.
13. Explain the lender of last resort function of central bank.
14. State the meaning and components of M1 measure of money supply.
15. How does money overcome the problems of barter system?
16. Why only a fraction of deposits is kept as cash reserves?
17. Define credit multiplier. What role does it play in determining the credit creation power of the banking system? Use a numerical illustration to explain.
18. Explain the significance of medium of exchange function of money.
19. Credit creation is inversely related to the reserve deposit ratio. Justify the given statements using a hypothetical example.
20. How is Repo rate different from Reverse Repo rate?

CASE BASED QUESTIONS

Case 1: Read the following case study paragraph carefully and answer the questions on the basis of the same.

Reserve bank of India is the central bank of the country. RBI is a statutory body. It is responsible for the printing of currency notes and managing the supply of money in the Indian economy. It plays multi-facet role by executing multiple functions such as overseeing monetary policy, issuing currency, managing foreign exchange, working as a bank of government and as a banker of scheduled commercial banks, among others. It also works for overall economic growth of the country.

1. Define central bank.

2. Who issues the one-rupee notes and coins in the country,
3. RBI acts as the banker to the central government and commercial banks act as banker to the state governments. (T/F)
4. When commercial banks fail to meet their financial requirements from other sources, the central bank provides them funds through discounting of approved securities and due to this central bank is said to be the -----
5. Where is the headquarter of RBI?

Case 2:

India's total Money Supply (M3) stood at Rs 18907383 crore as on April 9th 2020, recording a rise of 11.3% over the same time last year. Currency with the public stood at Rs 2787941 crore, up 16.7% over the year. Demand deposits with banks were up 17% at Rs 1867606 crore.

Time deposits with banks were also up 9.6% at Rs 14205545 crore. The bank credit to commercial sector edged up 5.1% on year to Rs 11552069 crores. However, this indicates moderation from 7.2% at the same time last year.

1. How does increase in deposits with commercial banks will affect credit creation process: -
 - a) Credit creation process will increase
 - b) Credit creation process will remain unaffected
 - c) Credit creation process will reduce
 - d) None of above
2. M3 is consist of: -
 - a) C +OD + Time deposits
 - b) C + DD + OD + time deposits
 - c) M1 + deposits of post office saving bank
 - d) All of above
3. What is indicated by increasing deposits: -
 - a) People prefer to save more now
 - b) Income level of people are increasing
 - c) People prefer to keep money in the bank accounts after demonetization
 - d) All of above

NOTE:

- **M1 = C+DD+OD**
- **M2** = It is a boarder concept of money supply as compared to M1. In addition to M1 it also includes savings deposits with post office savings bank. **M2 = M1 + Savings Deposits with post office savings bank**
- Savings deposits with post office savings bank is not withdrawable by cheque so they couldn't be placed under DD with bank. As a result, the concept of M2 was evolved
- **M3** = This concept is broader as compared to M1, in addition to M1, it also includes net time deposits. **M3 – M1 + Net time deposits with banks**
- **M4** = This measure includes total deposits with post office savings bank in addition to M3. **M4 = M3+Total deposits with post office saving bank.**