INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet: 1	Topic: Money and Banking

1. By supply of money we mean:
   (a) Money deposited in the bank
   (b) Money available with the public
   (c) Deposits with post office savings bank
   (d) All of these

2. Which one is the Bank of the Public?
   (a) Commercial Bank
   (b) Central Bank
   (c) Both (a) and (b)
   (d) None of the above

3. The primary function of Commercial Bank is?
   (a) Accepting Deposits
   (b) Advancing Loans
   (c) Credit Creation
   (d) All of these

4. Deposits accepted by the Commercial Banks:
   (a) Current Deposits
   (b) Saving Deposits
   (c) Time Deposits
   (d) All of these

5. Credit Multiplier is:
   (a) 1/CRR
   (b) cash×1 CRR
   (c) Cash x CRR
   (d) None of these

6. Which of the following is the credit money?
   (A) Cheque and draft
   (B) Promissory note
   (C) Exchange note
   (D) All of these

7. Which among the following is the near money?
   (A) Bonds
   (B) Insurance policy
   (C) Securities
   (D) All of these

8. Institution that accepts deposits for lending purpose is known as ___________
   (A) Commercial Bank
   (B) Central Bank
   (C) Government
   (D) Public

9. Who circulates all mint and one rupee not in India?
   (A) Ministry of Finance
   (B) RBI
   (C) Ministry of External Affairs
   (D) State Government

10. Indian Monetary System is based on ________
   (A) Paper Standard
   (B) Metallic Standard
   (C) Gold Standard
   (D) Credit Money Standard

11. Which of the following is the apex bank of India?
   (A) RBI
   (B) SBI
   (C) SBP
   (D) PNB

12. Ms. Sakshi, an economics teacher, was explaining the concept of 'minimum percentage of the total deposits to be kept by any commercial bank with the central bank of the country, as per norms and statute prevailing in the country'.
From the following, choose the correct alternative which specifies the concept explained by her?
   a. Cash reserve ratio
   b. Repo rate
   c. Bank rate
   d. Statutory liquidity ratio

13. which of the following statements does not support the function of RBI as supervisor to the commercial banks?
   a. Regulates the expansion, merger, acquisition, etc of the bank
   b. Formulates all rules and regulations for commercial banks
   c. Extend loans to the commercial bank
   d. Inspection of operations of banks.

QUESTIONS:

1.What is meant by statutory liquidity ratio (SLR)? State the effect of rise in rate of SLR on creation of credit.
2.Explain the problem of double coincidence of wants faced under barter system. How has money solved it?
3.What do you mean by credit/money creation? Explain the process of Money creation by the commercial banks with the help of a numerical example.

4. Calculate the value of the money multiplier and the total deposit created if the initial amount is rupees 700 crore and the LRR is 10%.
5. Justify the following statements with valid arguments:
   (a) The Central Bank is the sole currency issuing authority of an economy.
   (b) Money serves as a measure of standard of deferred payments.
6. Distinguish between 'Qualitative and Quantitative tools' of credit control as may be used by a Central Bank.
7. Discuss briefly the following functions of a Central Bank.
   (i) Banker's bank
   (ii) Lender of last resort
8. Explain the components of legal reserve ratio.
9. Elaborate any two instruments of credit control as exercised by the RBI.
10. Explain the lender of last resort function of central bank.
11. State the meaning and components of M1 measure of money supply.
12. How does money overcome the problems of barter system?
13. Why only a fraction of deposits is kept as cash reserves?
14. Explain the significance of medium of exchange function of money.
15. Credit creation is inversely related to the reserve deposit ratio. Justify the given Statements using a hypothetical example.
16. How is Repo rate different from Reverse Repo rate?

CASE BASED QUESTIONS

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

The Reserve Bank of India (RBI) is India's Central Bank, also known as the banker's bank. The RBI controls the monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934. The role of RBI has undergone a significant change after the introduction of the new Economic Policy in 1991.
The Reserve Bank of India (RBI) is India's central bank and regulatory body under the jurisdiction of the Ministry of Finance, the RBI is responsible for the issue and supply of the Indian rupee and the regulation of the Indian Banking system. It also manages the country's main payment systems and works to promote its economic development.
On 8 November 2016, the government of India announced the demonetization of all ₹ 500 and ₹ 1000 banknotes of the Mahatma Gandhi Series on the recommendation of the Reserve Bank of India (RBI).

1. Why RBI is said to be a banker of the bank. Choose the correct option
   a) Lenders of last resort
   b) controller of credit
   c) Decide LRR
   d) None of the above.

2. 'RBI is responsible for issue and supply of Indian Rupee in the economy'. Identify the function of RBI and explain.
   a) Central bank has the authority to issue currency in the economy.
   b) This develops the public faith in the system of note circulation.
   c) It allows the central bank to supervise and control the money supply.

d) All of the above.

3. Define Demonetization.
   a) it refers to selling the public sector to the private.
   b) It refers to the release of new coins.
   c) It refers to the process where currency notes of certain denominations are declared no longer as legal tender.
   d) None of the Above.

4. How the role of RBI has changed after the 1991 New Economic Policy.
   a) Its role changes from the regulator to facilitator
   b) Interest rates decision are left with financial institutions
   c) It only formulates the guidelines and decision-making rights are left with financial institutions
   d) All of the 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.