



<b>Class: XII</b>	<b>Department: Commerce</b>
<b>Worksheet No: 1</b>	<b>Topic: Money and Banking</b>

**I. MULTIPLE CHOICE QUESTIONS**

1. Which of the following is a typical character of the barter system?
  - a. A common medium of exchange
  - b. Double coincidence of wants
  - c. A common unit of account
  - d. A standard for deferred payments
2. Money which is accepted as a medium of exchange because of the trust between the payer and the payee is called:
  - a. Full-bodied money
  - b. Credit money
  - c. Fiat money
  - d. Fiduciary money
3. Money that is issued by the authority of the government is called:
  - a. Full-bodied money
  - b. Credit money
  - c. Fiat money
  - d. Fiduciary money
4. Supply of money is a:
  - a. Flow variable
  - b. Stock variable
  - c. Real flow
  - d. None of these
5. Which of the following systems is followed by the Reserve Bank of India for issuing currency?
  - a. Proportionate system
  - b. Simple deposit system
  - c. Minimum reserve system
  - d. Fixed fiduciary issue system
6. Commercial banks work for the purpose of:
  - a. Welfare
  - b. Earning profit
  - c. Both a and b
  - d. None of these

7. Money is defined as:
  - a. Commonly accepted measure of value
  - b. A store of value
  - c. A standard of deferred payments
  - d. All of these
  
8. Which of the following is the component of the M1 measure of money supply?
  - a. Time deposit
  - b. Demand deposit
  - c. Cash reserves of the commercial banks
  - d. None of these
  
9. Demand deposits are:
  - a. Chequable deposits
  - b. Non-chequable deposits
  - c. Deposits which can be withdrawn on demand
  - d. Both (a) and (c)
  
10. In India, coins are issued by:
  - a. State Bank of India
  - b. Reserve Bank of India
  - c. Ministry of Finance
  - d. Ministry of Urban Development
  
11. The rate at which commercial banks are allowed to park their surplus funds with RBI is called:
  - a. Bank rate
  - b. Repo rate
  - c. Currency rate
  - d. Reverse repo rate
  
12. Liquid assets include:
  - a. Unencumbered approved securities
  - b. Cash
  - c. Gold
  - d. All of these
  
13. Moral suasion by RBI relates to:
  - a. Pressure by the RBI to follow its directives
  - b. Persuasion by the RBI to follow its directives
  - c. Persuasion as well as pressure by the RBI to follow its directives
  - d. None of these
  
14. In India, suppliers of money are:
  - a. Government of the country
  - b. The banking system of the country
  - c. Both (a) and (b)
  - d. None of these
  
15. With an increase in SLR, the flow of credit in the economy:
  - a. Increases
  - b. Decreases
  - c. Remains unchanged

d. None of these

16. Money value is equal to commodity value in case of:

- a. fiat money
- b. full bodied money
- c. fiduciary money
- d. credit money

17. In the COVID-19 times Indian Economy has been Experiencing deflationary shocks many small and medium-scale industries closed. Many Economists opined that without support (availability of chief credit) from the government and monetary authority it is difficult to revive.

Suppose you are a member of the high-powered committee constituted by the Reserve Bank of India (RBI).

You have suggested that the Repo rate should be \_\_\_\_\_ (reduced/increased)  
(Choose the correct alternative).

18. "The deposit forms a part of M1 measure of money supply and are payable on demand by the commercial bank." Identify the type of deposit:

- a. Demand deposit
- b. Time deposit
- c. Post office deposits
- d. None of these

19. If the total deposits created by commercial banks is Rs 10000 crores and LRR is 40% then amount of initial deposits will be\_\_\_\_\_.

- a. Rs 2000 crore
- b. Rs 3000 crore
- c. Rs 4000 crore
- d. Rs 14000 crore

20. When commercial banks fail to meet its financial requirement from all other sources, it approaches central at the last. This makes the central bank as.....

- a. Clearing house
- b. custodian of cash reserve
- c. Bank of issue
- d. lender of last report

21. Statement 1: Demonetisation was the step taken by the Government of India in order to tackle the problems of corruption, black money, terrorism and circulation of fake currency in the Indian Economy.

Statement 2: Demonetisation has ensured improved tax compliance in India over the period of time. In the light of the given statements, choose the correct alternative from the following:

- i. Statement 1 is false and statement 2 is true
- ii. Statement 1 is true and statement 2 is false
- iii. Both statements 1 and 2 are false
- iv. Both statements 1 and 2 are true

22. The maximum limit to accept payments in coins.

- a. ₹ 500
- b. ₹ 1000
- c. ₹ 250

d. None of these

### **CASE BASED QUESTIONS**

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

The Reserve Bank of India raised inflation forecasts on the back of higher oil and other raw materials while it maintained the growth forecast at 9.5% for FY22 despite anemic investment demand.

Governor Shaktikanta Das said inflation measured by the consumer price index (CPI) might remain close to the upper tolerance band of 6% up to September expecting easing of pressure thereafter on kharif harvest arrivals. [RBI has fixed inflation rate target in between 2%-6 %.]

The central bank projected CPI at 5.7% for FY22 compared to its earlier projection of 5.1%. “The supply-side drivers could be transitory while demand-pull pressures remain inert, given the slack in the economy. A pre-emptive monetary policy response at this stage may kill the nascent and hesitant recovery that is trying to secure a foothold in extremely difficult conditions,” Das said.

Crude oil prices are volatile with implications for imported cost pressures on inflation, RBI said. “The combination of elevated prices of industrial raw materials, high pump prices of petrol and diesel with their second-round effects, and logistics costs continue to impinge adversely on cost conditions for manufacturing and services, although weak demand conditions are tempering the pass-through to output prices and core inflation.

1. How does RBI promote growth process of country;
  - a) By controlling price level in country
  - b) By changing various interest rates and money supply
  - c) By increasing supply of products
  - d) All of above
  
2. Why does RBI fix the inflation target?
  - a) To make growth process fast
  - b) To make coordination with government
  - c) To manage exchange rate
  - d) To stabilize economy
  
3. Why increasing crude oil prices are matter of concern;
  - a) Increasing crude oil prices are increasing transportation cost
  - b) Increasing crude oil prices are making economy potentially unstable
  - c) Increasing crude oil prices are volatizing growth process
  - d) Increasing crude oil prices are adversely affecting demand

#### **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 demonetisation
  - d) All of above

### **ASSERTION AND REASON BASED QUESTIONS**

**Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below:**

**Alternatives:**

- Alternatives: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).  
 (b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)  
 (c) Assertion (A) is true but Reason (R) is false  
 (d) Assertion (A) is false but Reason (R) is true and (R) is not correct explanation of (A)

1. Assertion (A): To boost the falling demand in the economy. Reserve bank of India recently reduced repo rate and bank rate.  
 Reason (R): Decrease in repo rate and bank rate causes decreases in the rate of interest which leads to rise demand of credit because of which more money flows into the economy, purchasing power of people increases. Thus, aggregate demand rises and deficient demand is corrected.
  
2. Assertion (A): Anything will be called money if the law of country proclaims it to be money. It will be commonly accepted measure of value as it will be endowed with legal tender power (Limited and unlimited). Thus “money is what the law says it is”  
 Reason (R): Limited legal tender money can be accepted up to a certain limit. For example, in India, coins up to Rs1000 only (as per coinage bill, August 2011) can be accepted legally in payment. All currency notes have unlimited legal tender.
  
3. Assertion (A): Money supply is a flow concept.  
 Reason (R): Money Supply always measured at a particular point of time.
  
4. Assertion (A): The reserve bank of India had in March 2020 offered a three months moratorium (suspension/freeze) on loans enabling borrowers to defer repayment on EMI and other loans.  
 Reason (R): The loan moratorium was aimed at providing borrowers relief aimed the

economic impact of the covid-19 pandemic.

5. Assertion (A): Currency held by public is a monetary liability of central bank.  
Reason (R): Central bank controls credit, whereas commercial banks create credit with currency held by public.
6. Assertion (A)-Open market operations are used to influence money supply in the economy.  
Reason: (R) Central bank sells government securities to increase the flow of credit in the economy.
7. Assertion (A) Central bank as a banker to the government, works as a financial adviser.  
Reason (R) Government borrows internally from banks and the general public.
8. Assertion (A): Demand deposits are not legal tenders.  
Reason (R): Demand deposits are deposits that can be easily withdrawable on demand, by cheque or otherwise, by the depositor from his/her bank account.

### **NUMERICALS:**

1. Calculate the value of the credit multiplier if the legal reserve deposit ratio is 20%.

**Solution:** Credit Multiplier =  $1/\text{Legal Reserve Deposit Ratio} = 1/0.2 = 5$

2. If the Reserve Ratio is 20% and the primary deposits are ₹100, what is the value of the deposit multiplier and total lending by the banking system? Given the same amount of initial deposits, if the RBI increased the Reserve Ratio to 25%, what would happen in the economy? Explain.

**Solution:** Deposit multiplier (or Money multiplier or Credit multiplier) =  $1/\text{Reserve ratio} = 1/20\% = 1/0.2 = 5$

Credit creation (or Money creation or Deposit creation) = Primary Deposits  $\times 1/\text{Reserve ratio} = ₹100 \times 5 = ₹500$

Total lending by the banking system =  $500 - 100 = ₹400$

If the RBI increases the Reserve Ratio to 25%, total money creation =  $₹100 \times 1/0.25 = ₹100 \times 4 = ₹400$

Thus, the banking system would now be able to loan ₹300 only ( $₹400 - ₹100$ ). It would have to call back some loans to meet the increased reserve requirements. Hence, money supply would fall.

3. Calculate the legal reserve ratio if the initial deposit of ₹10,000 crore lead to a creation of total deposits of ₹1,00,000 crore.

**Solution:** Deposits creation = Initial deposits  $\times 1/\text{LRR}$   $1,00,000 = 10,000 \times 1/\text{LRR}$   $1/\text{LRR} = 1,00,000/10,000$   $1/\text{LRR} = 10$   $\text{LRR} = 1/10 = 0.1$  or 10%

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