

MONEY SUPPLY, BANKING AND FINANCIAL INSTITUTIONS BASED INDIAN ECONOMY MCQ PRACTICE QUESTIONS AND ANSWERS PDF WITH EXPLANATION

For All Competitive SSC, Bank, IBPS, UPSC, Railway, IT & Other Govt. Exams

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Q1. Microfinance is the provision of financial services to people of low-income groups. This includes both the consumers and the self-employed. Services rendered under microfinance is/are:

- i. Credit facilities
- ii. Savings facilities
- iii. Insurance facilities
- iv. Fund transfer facilities

Select the **correct** answer using the codes given below the lists:

- a) (i) & (iv) only
 - b) (ii) & (iii) only
 - c) (i) only
 - d) (i), (ii), (iii) & (iv)
-

Q2. The acronym SRO, being used in the capital market for various market participants, stands for which one of the following?

- a) Self Regulatory Organisations
 - b) Securities Roll-back Operators
 - c) Small Revenue Operators
 - d) Securities Regulatory Organisations
-

Q3. In case of the recent **Yes Bank crisis**:

- i. RBI superseded the Board of 'Yes Bank' through RBI Act 1934
- ii. RBI acted as 'Lender of Last Resort'

Select the **correct** answer using the code given below:

- a) (ii) only
- b) Both (i) & (i)

- c) (i) only
- d) Neither (i) nor (ii)

Q4. Which of the following **functions** are part of the Reserve Bank of India (RBI) acting as **Banker to Banks**?

- i. Enabling banks to maintain their accounts with RBI for statutory reserve requirements
- ii. Enabling settlement of interbank transfer of funds
- iii. RBI provides short term loans and advances to banks
- iv. Acting as lender of last resort

Select the **correct** answer using the code given below:

- a) (i) & (ii) only
- b) (i), (ii) & (iii) only
- c) (i) only
- d) All of the above

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Q5. Bank rate is that rate on which—

- a) Central Bank of Country lends money to the commercial banks
- b) Rural bank gives loan to cooperative societies
- c) Any bank lends money to an individual
- d) State Bank of India gives loan to the rural banks

Q6. Which of the following could create a hindrance in achieving the objective of inflation targeting by RBI?

- i. Government deviating from the fiscal road map
- ii. Impediments in monetary policy transmission
- iii. Supply-side bottlenecks

Select the **correct** answer using the code given below:

- a) (i) & (ii) only

- b) (ii) & (iii)
 - c) (i) only
 - d) All of the above
-

Q7. Which of the following operations by RBI will help in 'monetary transmission'?

- i. Forex Swap
- ii. Sale of Government bonds by RBI
- iii. Operation Twist
- iv. Long Term Repo Operation (LTRO)

Select the **correct** answer using the code given below:

- a) (i) & (ii) only
 - b) (i), (iii) & (iv) only
 - c) (ii) only
 - d) All of the above
-

Q8. Consider the following statements regarding the resolution of **Financial Service Providers (FSP)** under IBC 2016.

- i. Govt. of India in consultation with the appropriate regulator will decide which category of FSPs can be taken up for resolution under IBC 2016
- ii. To initiate resolution of FSPs under IBC 2016, the appropriate regulator should make an application

Select the **correct** answer using the code given below:

- a) (ii) only
 - b) Both (i) & (ii)
 - c) (i) only
 - d) Neither (i) nor (ii)
-

Q9. Consider the following statements:

- i. Disinflation is declining rate of inflation but the rate of inflation remains positive
- ii. Deflation is general decrease in price level and the inflation rate is negative

Select the **correct** answer using the code given below:

- a) (ii) only
 - b) Both (i) & (ii)
 - c) (i) only
 - d) Neither (i) nor (ii)
-

Q10. Which of the following situation may lead to depreciation of a country's currency with respect to another country:

- a) Rise in the interest rate
 - b) Increase in exports
 - c) Foreign Investment inflow
 - d) None of the above
-

Q11. Which of the following systems of Note-issue is followed by RBI?

- a) Minimum Reserve System
 - b) None of the above
 - c) Fixed Fiduciary System
 - d) Proportional Reserve System
-

Q12. Consider the following statements:

- In Narrow Banking, Banks just accept deposits and provide loans.
- In Narrow Banking, there is rarely Asset Liability Mismatch.

Which among the above statements is / are **correct**?

- a) Only 2 is correct
- b) Only 1 is correct
- c) Both 1 and 2 are correct
- d) None of them is correct

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Q13. Which of the following statements are true regarding “**Term Repo Operations**”?

- i. The interest rate is between reverse repo and repo rate
- ii. The interest rate is above the repo rate
- iii. The interest rate is generally fixed
- iv. The interest rate is generally variable

Select the **correct** answer using the code given below:

- a) (i) & (iv) only
- b) (ii) & (iii) only
- c) (i) & (iii) only
- d) (ii) & (iv) only

Q14. Full convertibility of a rupee means

- a) repayment of loans in terms of rupees
- b) determination of rate of exchange between rupee and foreign currencies freely by the market forces of demand and supply
- c) purchase of foreign exchange for rupees freely
- d) payment for imports in terms of rupees

Q15. Consider the following statements. The function of commercial banks in India includes

- Purchase and sale of shares and securities on behalf of customers.
- Acting as executors and trustees of wills.

Which of the statement(s) given above is/are **correct**?

- a) Only 2
- b) Neither 1 nor 2
- c) Both 1 and 2
- d) Only 1

Answers to the above questions :

Q1. Answer: (d)

Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services.

Microfinance includes microcredit (the provision of small loans to poor clients); savings and current accounts; microinsurance; and payment systems etc.

Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient

Q2. Answer: (a)

A self-Regulatory organization (SRO) is a nongovernmental organization that has the power to create and enforce industry regulations and standards.

The priority is to protect investors through the establishment of rules that promote ethics and equality.

Q3. Answer: (a)

When there is a liquidity crisis with a bank, then RBI acts as "Lender of last resort" and provides loans at a particular interest rate to the bank.

But when there is major mismanagement in the bank and there are chances of major default/bankruptcy, then RBI, in consultation with Govt. of India, can supersede the "Board of Directors" of banks in the public interest. (But RBI may not supersede the Board of PSU banks).

Once RBI supersedes the Board of Directors (management), then it appoints an "Administrator". This is done as per the "Banking Regulation Act 1949" Section 36ACA.

So, (i) statement is false as RBI supersedes a bank's Board under "Banking Regulation Act 1949" and not under RBI Act 1934

In case of the Yes Bank Crisis, RBI superseded the management of Yes Bank and it also acted as lender of last resort and provided a 90-day loan AT BANK RATE of 5.4% (at that time Bank Rate was repo plus 0.25%, which comes out as $5.15\% + 0.25\% = 5.4\%$), plus 3%

(so basically RBI charged $5.4\% + 3\% = 8.4\%$ as a penalty) to meet the immediate liquidity needs of the Yes Bank.

Under the Lender of Last Resort, RBI gives loans against eligible securities to financial institutions (Banks and NBFCs both) in emergencies.

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Q4. Answer: (d)

As a banker to the bank, RBI performs the following functions:

1. RBI enables banks to open their (current) accounts with RBI for maintenance of statutory reserve requirements (CRR and may be SLR)
2. RBI acts as a common banker for different banks to enable settlement of interbank transfer of funds
3. RBI provides short term loans and advances to banks for specific purposes

4. RBI acts as a lender of last resort may be in case of a bank run situation. (Bank Run is a situation that occurs when everybody wants to take money out of one's bank account before the bank runs out of reserves.)

Q5. Answer: (a)

The bank rate also referred to as the discount rate, is the rate of interest that the central bank charges on the loans and advances to a commercial bank. Repo (Repurchase) rate is the rate at which the central bank lends short-term money to the banks against securities.

A reduction in the repo rate will help banks to get money at a cheaper rate. The reverse repo rate is the rate at which the banks park surplus funds with the reserve bank, while the repo rate is the rate at which the banks borrow from the central bank.

Q6. Answer: (d)

When government deviates from the fiscal deficit target and spends more, it results in higher inflation. So even if RBI is trying to bring down the inflation, deviation in the fiscal deficit target will create issues in RBI achieving the inflation target.

To target inflation, RBI changes the repo rate which ultimately increases/decreases the interest rate, resulting in a change in the money supply. Through a change in money supply, RBI tries to achieve its inflation target. So, hindrances in monetary policy transmission may create issues in RBI achieving the inflation target.

In case of supply-side challenges like drought, floods or governance issues, just reducing the money supply may not result in bringing down the prices of commodities.

Q7. Answer: (d)

Monetary transmission is the pass-through of RBI's monetary policy decisions to the economy at large in terms of interest rates, asset prices, or other economic parameters etc. And monetary transmission may result in any direction i.e. interest rates or asset prices moving up or down.

Q8. Answer: (b)

Section 227 of IBC 2016 says that "Notwithstanding anything to the contrary examined in this Code or any other law for the time being in force, the Central Government may, if it considers necessary, in consultation with the appropriate financial sector regulators, notify financial service providers or categories of financial service providers for the purpose of their insolvency and liquidation proceedings, which may be conducted under this Code."

And the rules also say that to initiate resolution of FSPs under IBC 2016, the appropriate regulator should make an application. This is not applicable in other cases wherein the case of default, either the creditor or the debtor (company), anyone can move for resolution under IBC 2016.

Since section 227 got notified, the Ministry of Corporate Affairs (GoI) (using the powers under section 227) consulted the regulator (RBI) and said that those NBFCs with asset size of more than Rs. 500 crores can be brought under the IBC code for resolution.

This has been done only for those NBFCs which are regulated by RBI and not for those NBFCs which are regulated by other regulatory bodies like SEBI, IRDAI etc.

Q9. Answer: (b)

Q10. Answer: (d)

When foreign investors come to India, they bring dollars and this dollar they sell in forex market and demand rupees which results in increase in demand of rupee and rupee appreciates.

When exports increase, we earn more dollars from the foreign market and this dollar we sell in the forex market to purchase rupees which results in increase in demand of rupees and rupee appreciates.

When the interest rate in India increases, more foreign investors come to India to invest in fixed interest rate instruments, which results in rupee appreciation.

So, none of the statements are true.

Q11. Answer: (a)

Q12. Answer: (a)

Q13. Answer: (d)

RBI lends to banks @repo rate but only up to 0.25% of banks NDTL. RBI further lends from time to time above the repo rate up to 0.75% of the overall NDTL in the system. And in this case, the interest rate is decided by auction

i.e. if more banks want money, the interest rate will go higher, if fewer banks are competing for RBI money then the interest rate will be less but it will always be above the repo rate (actually RBI puts a condition that all the bids at or below the repo rate will be rejected).

This is called "term repo" which means RBI gives money for a fixed long term. Term Repo is also called Variable Term Repo Operations.

Q14. Answer: (b)

The full convertibility of the Indian currency means that the rupee would be made freely exchangeable into other currencies and vice versa. The rupee was made partially convertible in 1994.

Currently, it can be changed freely into foreign currency for business and trade expenses but not free for activities like acquiring overseas assets. Full conversion of the currency means the local currency can be exchanged for foreign currency without any governmental control.

Presently, the issue of capital account convertibility is in the discussion stage.

Q15. Answer: (a)

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