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

Created By Careericons Team

Q1. With reference to the institution of Banking Ombudsman in India, which one of the statements is **not correct**?

a) The Banking Ombudsman can consider complaints from non-resident Indians having accounts in India

b) The service provided by the Banking Ombudsman is free

c) The order passed by the Banking Ombudsman are final and binding on the parties concerned

d) The Banking Ombudsman is appointed by the Reserve Bank of India

---

Q2. If a country is experiencing inflation then what will decrease:

a) The output of goods and services

b) The amount of money needed to purchase a given quantity of goods and services

c) Wage level

d) Purchasing Power

Q3. Capitalism is based upon “Laissez-faire system”. What is “Laissez-faire system”?

a) No governmental intervention

b) Role of market forces is minimum

c) Maximum governmental intervention

d) Limited government Intervention

Q4. In India, rural incomes are generally lower than the urban incomes. Which of the following reasons account for this?

- A large number of farmers are illiterate and know little about scientific agriculture.
- Prices of primary products are lower than those of manufactured products.
- Investments in agriculture has been low when compared to investment in industry.

a) 1 and 2

b) 2 and 3

c) 1 and 3

d) 1, 2 and 3

Q5. A rapid increase in the rate of inflation is sometimes attributed to the “base effect”. What is “base effect”?

a) It is the impact of drastic deficiency in supply due to failure of crops

b) It is the impact of the price levels of previous year on the calculation of inflation rate

c) It is the impact of the surge in demand due to rapid economic growth

d) None of the statements (a), (b) and (c) given above is correct in this context

Q6. Consider the following statement:

- Bombay Stock Exchange (BSE) is India’s oldest stock exchange
- It formally came into being in 1888
- It was a regional exchange till 2002 when it became a national exchange

Choose the in**correct** statement regarding BSE.
a) 2 only

b) 1 only

c) 3 only

d) None of the Above

Q7. It is said that, in order to control inflation, foreign inflow needs to be sterlised. Sterlisation here refers to:

a) ensuring that black money is accounted.

b) ensuring that counterfeit currency does not enter circulation

c) compliance with import-export regulations

d) withdrawing equivalent local currency to maintain a desirable rate of exchange

---

Q8. Monetary policy is implemented by ..... in India.

a) The Parliament

b) Reserve Bank of India

c) Planning Commission

d) The Ministry of Finance

Q9. A currency having a falling exchange rate due to continuing balance of payments deficit is called a

a) Scarce currency

b) Surplus currency

c) Soft currency

d) Hard currency

Q10. Which of the following were the reasons for the recent **NBFC crisis** in the economy?

i. Relying on short term financing to fund long-term investments
ii. Asset liability mismatch (ALM)
iii. Rollover risk of commercial papers

Select the **correct** answer using the code given below:
a) (i), (ii) only

b) (ii), (iii) only

c) (i) only

d) All of the above

Q11. Which of the following are supply-side factor/s responsible for **inflation**?

i. Increase in exports
ii. Increase in government expenditure
iii. Increase in credit creation

Select the **correct** answer using the code given below:
a) (ii) & (iii) only

b) (i) & (iii) only

c) (i) only

d) (iii) only

Q12. Consider the following statements regarding "**State Development Loans**"

i. It is a Government security
ii. RBI manages the public debt of states
iii. It can be used under SLR by banks

Select the **correct** answer using the code given below:
a) (i) & (ii) only

b) (i) & (iii) only

c) (ii) only

d) All of the above

Q13. Foreign currency which has a tendency of quick migration is called

a) Gold currency

b) Hot currency

c) Scarce currency

d) Soft currency

Q14. What is the role of "Ombudsman" in a bank?

a) To inspect the internal working of the branches.

b) To monitor the poverty alleviation programmes undertaken by or implemented by the bank.

c) To provide quality and speedy redressal of grievances of customers.

d) To provide suggestions for innovative schemes in the banks.

Q15. Since the economic reforms were launched in India, which one of the following statements is true for Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) of the commercial banks?

a) SLR has been reduced but CRR has been raised

b) Both SLR and CRR have been reduced

c) SLR has been increased but CRR has been reduced

d) Both SLR and CRR have been raised

Read More money and supply banking financial institutions Question and Answes »

Answers to the above questions :

Q1. Answer: (c)

Q2. Answer: (d)

When a country faces inflation, we require more money to purchase a given quantity of goods and services because the purchasing power of rupee decreases. In case of inflation generally wages increase but nothing can be said about the output.

And in case of inflation, the amount of money needed will be more to purchase the same goods and services.

So, (d) option is true.

Q3. Answer: (a)

Q4. Answer: (d)

Q5. Answer: (b)

Base effect is almost an ubiquitous term which says that the previous data affects the calculation of the current data.

Q6. Answer: (c)

Bombay Stock Exchange (BSE) India’s oldest stock exchange formally came into being in 1887 and was a regional exchange till 2002 when it became a national exchange.

Q7. Answer: (d)

Q8. Answer: (b)

Q9. Answer: (c)

Soft currency is a currency with a value that fluctuates as a result of the country's political or economic uncertainty which may be due to the balance of payments problem.

Currencies from most developing countries are considered to be soft currencies.

Often, governments from these developing countries will set unrealistically high exchange rates, pegging their currencies to a currency such as the U.S. dollar

Q10. Answer: (d)

NBFCs rely on short-term financing like commercial papers to fund long-term investments (long term loans to businesses). So, the tenure of liability (the commercial papers issued by NBFCs) is short and the tenure of assets (loans given by NBFCs) is long. This is called Asset Liability Mismatch (ALM).

So, NBFCs are required to refinance these commercial papers at short frequencies of a few months. The frequent repricing of loans/advances (as they need to be raised again and again and interest rate keeps on changing in the market) exposes NBFCs to the risk of facing higher financing costs, and in the worst case, credit rationing. Such refinancing risks are referred to as rollover risks.

Credit rationing is the limiting by lenders of the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates.

Q11. Answer: (c)

A supply shock is an unexpected event that suddenly changes the supply of a product or commodity, resulting in an unforeseen change in price. Supply shocks can be negative, resulting in a decreased supply, or positive, yielding an increased supply; however, they're often negative.

A supply shock inflation is caused because of the problem (negative supply shock) in the supply of goods and services rather than a change in demand.

If the exports from India increase because foreigners purchased more Indian products then it may result in a shortage in supply of that product in the domestic economy resulting in supply shock inflation.

Because of increased government expenditure, more money reaches the public resulting in increased demand and hence demand-pull inflation.

If there is more money/credit creation in the economy then it results in higher demand in the economy resulting in demand-pull inflation.

Q12. Answer: (d)

A Government Security (G-Sec) is a tradeable instrument issued by the Central Government or the State Governments. (G-Secs are issued through auctions conducted by RBI.

Auctions are conducted on the electronic platform called the E-Kuber, the Core Banking Solution (CBS) platform of RBI). G-Secs carry practically no risk of default and, hence, are called risk-free gilt-edged instruments. (Govt. issues only debt securities). There are four kinds of government securities.

Government Securities (G-Sec)

1. Treasury Bills
2. Cash Management Bills
3. Dated Securities
4. State Dev. Loans

SDLs are allowed to be kept under SLR by banks. SDLs have a maturity of more than one year. In terms of Sec. 21A (1) (b) of the Reserve Bank of India Act, 1934, the RBI may, by agreement with any State Government undertake the management of the public debt of that State.

Accordingly, the RBI has entered into agreements with 29 State Governments and one Union Territory (UT of Puducherry) for management of their public debt.

Q13. Answer: (b)

Hot money or currency is a term that is most commonly used in financial markets to refer to the flow of funds (or capital) from one country to another in order to earn a short-term profit on interest rate differences and/or anticipated exchange rate shifts.

These speculative capital flows are called “hot money” because they can move very quickly in and out of markets, potentially leading to market instability.

Q14. Answer: (c)

The Banking Ombudsman Scheme enables an expeditious and inexpensive forum to bank customers for the resolution of complaints relating to certain services rendered by banks.

The Banking Ombudsman Scheme was introduced under Section 35 A of the Banking Regulation Act, 1949 by RBI with effect from 1995.

Q15. Answer: (b)