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. Which of the following is/are treated as artificial currency?

a) SDR

b) Both ADR and GDR

c) GDR

d) ADR

Q2. Which of the following brings out the '**Consumer Price Index Number**' for Industrial workers?

a) Commerce Department

b) NITI Aayog

c) RBI

d) The Labour Bureau

Q3. Which one of the following best describes the term 'Merchant Discount Rate' sometimes seen in news?

a) The amount paid back by banks to their customers when they use debit cards for financial transactions for purchasing goods or services

b) The incentive given by the Government to merchants for promoting digital payments by their customers through Point of Sale (PoS) machines and debit cards

c) The charge to a merchant by a bank for accepting payments from his customers through the bank's debit cards

d) The incentive given by a bank to a merchant for accepting payments through debit cards pertaining to that bank

---

Q4. What is the **difference** between Inflation and Deflation?

- Inflation is an increase in the price of goods while Deflation is that state in which the value of money rises and the price of goods and services falls.
- Deflation is an increase in the price of goods while Inflation is that state in which the value of money rises and the price of goods and services falls.
- Inflation is a state in which the value of money rises and the price of goods and services falls while deflation is an increase in the price of goods.

Choose the **correct** difference between Inflation and Deflation.
a) 2 only

b) 1 only

c) 3 only

d) 1, 2, 3

Q5. What are the measures of checking deflation?

- Increasing money supply
- Promote credit creation by the banks.
- Curtailment in taxes so as to increase the purchasing power of the people.

Choose the **correct** measure.
a) 2 only

b) 1 only

c) 3 only

d) 1, 2, 3

Q6. Consider the following statements:

- not all banks come under the regulation of the Right to Information Act
- not all banks come under Schedule 2 of RBI

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) Neither 1 nor 2 is correct

Q7. When the exchange rate changes from 1 $ = 60 to 1 $ = 58, it means

- Rupee value has appreciated
- Dollar value has depreciated
- Rupee value has depreciated
- Dollar value has appreciated

Which of the statement(s) given above is/are **correct**?
a) 2 and 3 are correct

b) 2 and 4 are correct

c) 1 and 4 are correct

d) 1 and 2 are correct

Q8. When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points, which of the following is likely to happen?

a) Foreign Institutional Investors may bring more capital into our country

b) India's GDP growth rate increases drastically

c) Scheduled Commercial Banks may cut their lending rates

d) It may drastically reduce the liquidity to the banking system

---

Q9. If an economy is in "**Liquidity Trap**", then which of the following statements shall be true:

i. The interest rate in the market will be very low/zero
ii. People and businesses both will hold on to their cash and don't spend
iii. People will be willing to spend
iv. Demand Deposits of banks increases

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

b) (i), (ii) & (iv) only

c) (i) only

d) (i) & (iv) only

Q10. What does venture capital mean?

a) A short-term capital provided to industries

b) Funds provided to industries at times of incurring losses

c) A long-term start-up capital provided to new entrepreneurs

d) Funds provided for replacement and renovation of industries

---

Q11. An outward shift in the demand for money, other things being equal should lead to:

a) A lower interest rate but the same quantity of money

b) A higher quantity of money but lower interest rates

c) A higher interest rate but the same quantity of money

d) A higher quantity of money but the same interest rate

Q12. Which one of the following is **not** a function of the central bank in an economy ?

a) Controlling government spending

b) Acting as a banker's bank

c) Dealing with foreign exchange

d) Controlling monetary policy

Q13. Consider the following statements:

- The repo rate is the rate at which other banks borrow from the Reserve Bank of India.
- A value of 1 for Gini Coefficient in a country implies that there is perfectly equal income for everyone in its population.

Which of the statements given above is/are **correct**?

a) 2 only

b) 1 only

c) Both 1 and 2

d) Neither 1 nor 2

Q14. Which of the following statements are true regarding the **"Liberalized Remittance Scheme" (LRS)**?

i. It is applicable for Individuals only and not companies
ii. It is applicable for both current and capital account
iii. Foreign exchange trading is not permitted in this scheme

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

b) (ii) & (iii) only

c) (i) only

d) All of the above

Q15. Devaluation of currency leads to

a) expansion of import substitution

b) All of the above

c) expansion of export trade

d) contraction of import trade

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

Answers to the above questions :

Q1. Answer: (a)

Q2. Answer: (d)

The Consumer Price Index Numbers for Industrial Workers CPI (IW) are being compiled, maintained and disseminated by the Labour Bureau since its inception in October 1946.

These index numbers are being utilized for fixation and revision of wages and determination of variable Dearness Allowances payable to workers in organized sectors of the economy. These index numbers are compiled by the Bureau on a month to month basis.

Q3. Answer: (c)

Q4. Answer: (b)

Inflation is an increase in the price of goods while Deflation is that state in which the value of money rises and the price of goods and services falls.

Q5. Answer: (d)

Measures of checking deflation are:

1. Increasing money supply.
2. Promoting credit creation by the banks.
3. Curtailment in taxes so as to increase the purchasing power of the people.
4. Increasing the public expenditure and the employment opportunities in the economy.
5. Increasing the money supply in circulation by repayment of old public debts.
6. Providing economic subsidy by the Government to the industrial sector of the econ.

Q6. Answer: (c)

Q7. Answer: (d)

Q8. Answer: (c)

When the Reserve Bank of India reduces the Statutory Liquidity Ratio by 50 basis points; the Scheduled Commercial Banks may cut their lending rates.

Q9. Answer: (b)

A liquidity trap is a situation where the Central Bank wants to increase the money supply in the economy in case of recession but fails to lower the interest rate as the interest rates (repo rate and bank deposit rates) almost reaches zero. This makes the monetary policy ineffective.

In such a situation people would like to hold on to their cash (maybe in savings deposits in banks that is also called cash and not the fixed deposit) and may not spend money as there is almost zero or negative inflation.

(Actually, people are not willing to spend and demand in the economy declines, that is why the economy enters into a liquidity trap).

So, (i), (ii) & (iv) statements are true.

Q10. Answer: (c)

Venture capital (VC) is a long term financial capital provided to early-stage, high-potential, start up companies or new companies.

Q11. Answer: (c)

An outward shift in the demand for money, other things being equal should lead to a higher interest rate but the same quantity of money. The supply will not increase but with more demand the price (the interest rate) should increase.

Q12. Answer: (a)

A central bank, reserve bank, or monetary authority is a public institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries.

In contrast to a commercial bank, a central bank possesses a monopoly on increasing the nation's monetary base, and usually also prints the national currency, which usually serves as the nation's legal tender.

The primary function of a central bank is to manage the nation's money supply (monetary policy), through active duties such as managing interest rates, setting the reserve requirement, and acting as a lender of last resort to the banking sector during times of bank insolvency or financial crisis.

Central banks usually also have supervisory powers, intended to prevent bank runs and to reduce the risk that commercial banks and other financial institutions engage in reckless or fraudulent behaviour.

Q13. Answer: (b)

Repo Rate is the rate at which commercial banks borrow funds from RBI. A reduction in the repo rate will help banks to get money from the central bank at a cheaper rate. When the repo rate increases borrowing from RBI becomes more expensive.

A value of (0) for the Gini Coefficient in a country implies that there is perfect equality in the system. If the value is 1 then there is complete inequality in the country.

Q14. Answer: (d)

In India, any money you send overseas is subject to controls, as the government is wary of excessive outflows of foreign exchange draining its reserves and destabilising the rupee. But there has been an effort to gradually liberalise these controls.

The window that was opened up in 2004 for individuals to remit/send money across the border, without seeking specific approvals, was called the Liberalised Remittance Scheme (LRS).

Under LRS, all resident individuals (in India) can freely remit/send $250,000 overseas every financial year for a permissible set of current or capital account transactions.

Remittances are permitted for overseas education, travel, medical treatment and purchase of shares and property, apart from maintenance of relatives living abroad, gifting and donations. Individuals can also open, maintain and hold foreign currency accounts with overseas banks for carrying out transactions.

(Now anyone can say that “Rupee is fully convertible at current account” then what is this limit of $2,50,000? See, under this scheme, you can freely send the money abroad without specific government approvals, that is why the name is liberalized. But if you want to send more under current account then it may be possible but you may have to take specific approval of government which is not under this scheme)

However, the rules do not allow trading in “foreign exchange” (for example Dollar and Pound trading). Sending money to certain countries and entities is also barred. Under LRS, people can’t send money to countries identified as 'non-cooperative' by the Financial Action Task Force. Remittances are also prohibited to entities identified as posing terrorist risks.

The LRS represents India’s baby steps towards dismantling controls on foreign exchange movements in and out of the country. It has allowed large numbers of Indians to study abroad and diversify their portfolios from purely desi stocks and property.

Ideally speaking, capital controls in any form have no place in a liberalised economy. But for India, which is heavily dependent on imports of critical goods and perpetually spends more foreign exchange than it earns, it is difficult to free up remittances because of the havoc this can wreak on exchange rates.

The LRS gives you the freedom to put your money to work anywhere in the world. Until India is ready to free all capital controls, the LRS remains the most viable way for individuals to legally remit money overseas.

Q15. Answer: (b)

Devaluation in modern monetary policy is a reduction in the value of a currency with respect to those goods, services or other monetary units with which that currency can be exchanged.

There are two implications for currency devaluation. First, devaluation makes a country's exports relatively less expensive for foreigners and second, it makes foreign products relatively more expensive for domestic consumers, discouraging imports.

As a result, this may help to reduce a country's trade deficit. Import substitution means the promotion of export to replace imports. It is also a fallout of devaluation.