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. "**Smart Money**" term is used for

a) eBanking

b) Cash with Public

c) Credit Card

d) Internet Banking

Q2. Consider the following statements regarding Reserve Bank of India.

- It is a banks to the Central Government.
- It formulates and administer monetary policy.
- It acts as an agent of government in respect of India.
- It handles the borrowing programme of Government of India.

Which of these statements are **correct**?
a) 2, 3 and 4

b) 3 and 4

c) 1, 2, 3 and 4

d) 1 and 2

Q3. The Cash Reserve Ratio is a tool of :

a) Agricultural policy

b) Fiscal policy

c) Monetary policy

d) Tax policy

Q4. In India 'Money and Credit' is controlled by the

a) Industrial Development Bank of India

b) State Bank of India

c) Reserve Bank of India

d) Central Bank of India

Q5. Match the following.

List I	List II
(Goods)	(Example)
i. Public goods	a. Primary education
ii. Merit goods	b. National defence
iii. Non-merit goods	c. Pollution

Codes: i ii iii
a) i-b, ii-a, iii-c

b) i-a, ii-b, iii-c

c) i-c, ii-b, iii-a

d) i-a, ii-c, iii-b

Q6. A rise in 'SENSEX' means:

a) a rise in prices of shares of all companies registered with Bombay Stock Exchange

b) an overall rise in prices of shares of group up companies registered with Bombay Stock Exchange

c) a rise in prices of shares of all companies registered with National Stock Exchange

d) a rise in prices of shares of all companies belonging to a group of companies registered with Bombay Stock Exchange

Q7. Which one among the following is an appropriate description of deflation?

a) It is a persistent recession in the economy

b) it is a sudden fall in the value of a currency against other currencies

c) It is a persistent fall in the general price level of goods and services

d) It is fall in the rate of inflation over a period of time

Q8. Which one of the following governmental steps has proved relatively effective in controlling the double digit rate of inflation in the Indian economy during recent years?

a) enhanced rate of production of all consumer goods

b) pursuing an export oriented strategy

c) streamlined public distribution system

d) containing budgetary deficit and unproductive expenditure

Q9. Inflation occurs when aggregate supply is

a) equal to aggregate demand

b) None of these

c) more than aggregate demand

d) less than aggregate demand

Q10. Consider the following statements regarding the "**Monetary Policy**" followed by RBI:

i. It follows a flexible inflation target
ii. While inflation is in control, RBI can focus on growth
iii. Financial Stability is the explicit mandate of monetary policy
iv. Achieving monetary policy objectives will ensure financial stability

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

b) (ii) & (iv)

c) (i) only

d) (ii), (iii) & (iv)

Q11. Consider the following two statements:

i. Headline inflation measures price inflation arising due to all types of commodities in the economy
ii. Core inflation measures the headline inflation excluding volatile components i.e. food and fuel items

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

b) Both (i) & (ii)

c) (i) only

d) Neither (i) nor (ii)

Q12. '**Priority sector lending**' includes which of the following categories?

i. Renewable Energy
ii. Export Credit
iii. Social Infrastructure
iv. Education

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

b) (iii) & (iv) only

c) (ii) & (iv) only

d) All of the above

Q13. Funds which flow into a country to take advantage of favourable rates of interest in that country is called

a) Hot Money

b) White Money

c) Cold Money

d) Black Money

Q14. Which of the following statements are **correct** regarding "**Primary Cooperative Banks**":

i. They are under dual regulation of central/state govt. and RBI
ii. They are supervised by NABARD

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

b) Both (i) & (ii)

c) (i) only

d) Neither (i) nor (ii)

Q15. The term ‘Securitization’ refers to which of the following:

a) Pooling and repackaging of financial assets into marketable securities

b) Selling of debt securities to get access to liquidity

c) Issuance of securities of smaller values to raise liquidity

d) An unconventional monetary policy tool to pump liquidity in the economy through creation of securities

---

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

Answers to the above questions :

Q1. Answer: (c)

Credit cards are sometimes considered as smart money since they enable transactions without the need for physical cash and that, too, is a convenient manner.

It is plastic money that is used to pay for products and services at over 20 million locations around the world. In purely economic terms, Smart Money refers to investments made by people experienced in matters of finance.

Q2. Answer: (c)

Q3. Answer: (c)

Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank.

CRR is a crucial monetary policy tool and is used for controlling the money supply in an economy.

Q4. Answer: (c)

Q5. Answer: (a)

Public goods include,

1. national defence,
2. police,
3. general administration,
4. Merit goods include primary education,
5. immunisation,
6. public health programme,

Non-merit goods include pollution caused by automobile emissions.

Q6. Answer: (b)

Q7. Answer: (c)

Deflation is defined as a fall in the general price level of goods and services. It is a negative rate of inflation. It means the value of money increases rather than decreases.

Q8. Answer: (d)

Q9. Answer: (d)

If the supply is less than the demand, the price will increase. Inflation, the persistent increase in the average price level, can be caused by an increase in aggregate demand or a decrease in aggregate supply.

This suggests two basics sources, causes, or types of inflation—demand-pull inflation and cost-push inflation.

In general, prices increase as a result of market shortages, which occur when quantity demanded exceeds quantity supplied. Market shortages can be created by either increase in demand or decreases in supply.

Translating this to the macroeconomy suggests that inflation occurs when aggregate demand exceeds aggregate supply.

Q10. Answer: (a)

As per the RBI Act 1934, RBI follows a flexible inflation target of 4% +/- 2%. The Act says "the primary objective of the monetary policy is to maintain price stability while keeping in mind the objective of growth".

It means that if inflation is in control, RBI can focus on the economic growth of the country and can reduce the repo rate.

The explicit mandate of monetary policy is price stability and not financial stability.

Price stability is not sufficient for financial stability as there may be less inflation but we have huge NPAs and various financial institutions defaulting. (Like the situation in the last 4/5 years).

Q11. Answer: (b)

Q12. Answer: (d)

Scheduled Commercial banks are mandated to give a portion (40%) of their total credit to the priority sectors. Priority sector guidelines do not lay down any preferential rate of interest for priority sector loans.

Typically, these are small value loans to those sectors of the society/economy that impact large segments of the population and weaker sections, and to the sectors which are employment-intensive such as agriculture and small enterprises.

The following have been declared as the priority sectors by RBI:

1. Agriculture,
2. Education,
3. Housing,
4. Micro, Small & Medium Enterprises (MSME),
5. Export Credit,
6. Social Infrastructure (Schools, hospitals etc),
7. Renewable Energy and
8. Others (weaker sections like artisans, village cottage industries, SC/ST, Self Help Groups etc.)

RBI has classified loans to food & agro-based processing units and Cold Chain under agriculture activities for Priority Sector Lending (PSL).

Q13. Answer: (a)

Hot money 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)

Urban cooperative banks (UCB) are also called Primary cooperative banks and are under dual regulation of Central/State Governments and the RBI.

Though the Banking Regulation Act came into force in 1949, the banking laws were made applicable to cooperative societies only in 1966 through an amendment to the Banking Regulation Act, 1949. Since then there is a 'duality of control' over cooperative banks (urban and rural both) between the State Registrar of Cooperative Societies/Central Registrar of Cooperative Societies and the Reserve Bank of India.

The Reserve Bank regulates and supervises the banking functions of UCBs/StCB/DCCB under the provisions of Section 22 and 23 of Banking Regulation Act, 1949 and the non-banking aspects like registration, management, administration and recruitment, amalgamation and liquidation are regulated by the State/ Central Governments.

PACS and long-term credit co-operatives (SCARDB and PCARDB), which are basically rural cooperative banks, are outside the purview of the Banking Regulation Act, 1949 and are hence not regulated by the Reserve Bank.

Cabinet approved an Amendment on 5th Feb 2020 in Banking Regulation Act 1949 and Govt. is planning to bring management functions also of UCB/StCB/DCCB under RBI but not administrative.

Urban Cooperative Banks are under the supervision of RBI but supervision of all rural cooperative banks including StCB/DCCB has been delegated to NABARD by RBI.

For a detailed understanding, you can refer to the book on Indian Economy by Vivek Singh.

Q15. Answer: (a)

Securitization is the process of pooling and repackaging financial assets (like debt papers generally) into marketable securities that can be sold to investors.

For example, an NBFC has given loans to different companies. Now, these different loan papers are an asset for NBFC. Suppose all the loan papers is of Rs. 100 crores.

Now, one lakh shares have been created out of this asset worth Rs. 100 each and these shares can be sold to different people. NBFCs will get immediate liquidity/money and the share price will vary depending on whether the loan is being serviced/repaid properly or not.

If the companies to whom NBFC gave the loan are not returning the principal or interest, the price of security/share will fall.

Banks/NBFCs can sell these loan papers directly (“Direct Assignment" with certain restrictions) or they can also create security (“Securitization”) out of this loan paper and sell.

Both routes are adopted when they want liquidity. In other words, basically, securitization involves repackaging less liquid assets into saleable securities.