

# **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.** The question of full capital account convertibility of Indian was explained by the committee known as

- a) Rangarajan Committee
  - b) Hashim Committee
  - c) Tarapore Committee II
  - d) Vaghul Committee
- 

**Q2.** Who has the authority to issue currency notes in India?

- a) Ministry of Finance
  - b) RBI
  - c) Central Government
  - d) RBI governor
- 

**Q3.** Study the following statements with regard to Reserve Bank of India and select your answer from the codes given below.

- It is the Apex Bank.
- It regulates the money supply.
- It gives loan to the business houses.
- It supervises the operations of NABARD.

Code

- a) 2 and 4
  - b) 1, 2 and 4
  - c) 1, 2 and 3
  - d) 1 and 2
-

**Q4.** Which one of the following statements about foreign exchange reserves of India is **not** true?

- a) It is maintained with the Reserve Bank of India
- b) Presently foreign exchange situation is satisfactory in India
- c) Special drawing rights are not included in it
- d) It includes foreign currency assets and gold holdings of Reserve Bank of India

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**Q5.** The Government is planning merger of public sector banks. It will benefit in which of the following ways:

- i. Reducing cost and achieving efficiency
- ii. Achieving economies of scale
- iii. Leading to consolidation
- iv. The merged entity will have less NPA as compared to the individuals

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

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

**Q6.** Which of the following scenarios can support sustainable economic growth?

- i. Deflation
- ii. Low and moderate inflation
- iii. Galloping inflation
- iv. Hyperinflation

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

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

d) All of the above

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**Q7.** Priority Sector lending by banks in India constitutes the lending to

- a) Micro and small enterprises
  - b) All of the above
  - c) Weaker sections
  - d) Agriculture
- 

**Q8.** The \_\_\_\_\_ bank linkage programme continued to be the main micro-finance model by which the formal banking system reaches micro-entrepreneurs (including farmers).

- Self-Help Group
- Indian bank
- SBI
- PNB

Choose the **correct** name of the bank.

- a) 2 only
  - b) 1 only
  - c) 3 only
  - d) 4 only
- 

**Q9.** In the context of the Indian economy, which of the following is/are the purpose/purposes of '**Statutory Reserve Requirements**'?

- To enable the Central Bank to control the number of advances the banks can create
- To make the people's deposits with banks safe and liquid
- To prevent the commercial banks from making excessive profits
- To force the banks to have sufficient vault cash to meet their day-to-day requirements

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

- a) 1 and 2 only
  - b) 1 only
  - c) 2 and 3 only
  - d) 1, 2, 3 and 4
-

**Q10.** The major objective of monetary policy is to

- a) Promote economic growth with price stability
  - b) weed out corruption in the economy
  - c) increase government's tax revenue
  - d) revamp the Public Distribution System
- 

**Q11.** What are the authorities of SEBI?

- Oversee the working of stock exchanges
- Regulate merchant banks and mutual funds
- Register and regulate intermediaries such as stock brokers

Choose the **incorrect** answer.

- a) 2 only
  - b) 1 only
  - c) 3 only
  - d) None of the Above
- 

**Q12.** Which of the following terms indicates a mechanism used by commercial banks for providing credit to the government?

- a) Debt Service Obligation
  - b) Statutory Liquidity Ratio
  - c) Liquidity Adjustment Facility
  - d) Cash Credit Ratio
- 

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**Q13.** The Real Rate of Interest is equal to the Nominal Interest Rate minus inflation. Consider the following statements:

- i. Real Interest Rate must be positive to encourage savings and reduce consumption

- ii. Real Interest Rate must be negative to encourage savings and reduce consumption
- iii. Real interest rate is always positive
- iv. Inflation rate in the market may be negative

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

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

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**Q14.** Provident Fund in India is

- a) Residual Savings
- b) Employer's Savings
- c) Voluntary Savings
- d) Contractual Savings

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**Q15.** Who is the final authority in approving the design, form and material of bank notes:

- a) Central Board of RBI
- b) Central Government
- c) Governor of RBI
- d) Governor of RBI in consultation with Central Government

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**Answers to the above questions :**

**Q1. Answer: (c)**

**Q2. Answer: (b)**

The RBI Act of 1934, Section 22 gives the central bank the sole right to issue currency notes.

**Q3. Answer: (d)**

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**Q4. Answer: (c)**

**Q5. Answer: (a)**

The government is merging public sector banks to make them more efficient and achieve economies of scale and consolidation.

Just merging banks will not reduce the absolute value of NPAs.

**Q6. Answer: (c)**

Deflation is bad for economic growth. Because when prices start declining people postpone their purchase decisions and companies postpone their investment decisions.

This leads to a decrease in demand in the economy which hurts economic growth.

Low and moderate inflation is good for economic growth as it creates demand in the economy and people are also willing to save money in banks which ultimately increases investment.

Galloping or Hyperinflation eats away the savings of the people as they spend too much money in buying goods and services which ultimately decreases investment. Banks also do not offer higher interest rates (than inflation) in such cases and people do not keep money in banks as they do not get any real return.

So, only (ii) statement is true.

**Q7. Answer: (b)**

**Q8. Answer: (b)**

The Self-Help Group (SHG) bank linkage programme continued to be the main micro-finance model by which the formal banking system reaches micro-entrepreneurs (including farmers).

**Q9. Answer: (a)**

Because Reserve requirements are designed as “precautionary measures” and not to stop banks from “excessive” profit.

**Q10. Answer: (a)**

The main objective of monetary policy is to control the supply of money, often targeting an inflation rate or interest rate to ensure price stability and general economic growth.

Further goals of a monetary policy are usually to contribute to lower unemployment and to maintain predictable exchange rates with other currencies.

**Q11. Answer: (d)**

The SEBI is authorised to:

1. Oversee the working of stock exchanges;
2. Regulate merchant banks and mutual funds;
3. Register and regulate intermediaries such as stockbrokers;
4. Curb fraudulent and unfair trade practices including insider trading;
5. Promote the development of a healthy capital market.

**Q12. Answer: (b)**

**Q13. Answer: (d)**

Nominal Interest Rate (Deposit Rate) = Inflation + Real Interest Rate

If inflation is 5% and banks offer a deposit rate of 5% then nobody will deposit money in banks as whatever banks are offering will be eaten away by inflation. People deposit money in banks to earn something and this is possible only when the real interest rate is positive.

So, if inflation is 5% and banks are offering a deposit rate of 7% then the real interest rate will be 2%.

This means the depositors are actually/really getting a 2% return.

When the real interest rate is positive then it leads to people saving (depositing) money in banks, and somewhat reduction in their consumption.

When inflation increases a lot and banks do not increase their deposit rate then the real interest rate may turn negative. Inflation in the economy may be negative.

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



**Q14. Answer: (d)**

**Q15. Answer: (b)**

As per the RBI Act 1934, Section 25, "the design, form and material of bank notes shall be such as may be approved by the Central Government after consideration of the recommendations made by the Central Board of RBI."

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