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. Pegging up of a currency means, fixing the value of a currency

a) at a higher level

b) leaving it to market forces

c) at a constant level

d) at a lower level

Q2. What are the causes of inflation?

- Increase in demand for goods & services
- Decrease in the supply of goods & services
- Decrease in demand for goods & services
- Increase in the supply of goods & services

Choose the **correct** code.
a) 3 and 4

b) 1 and 2

c) 1 and 4

d) 2 and 3

Q3. For channelising the unaccounted money for productive purposes the Government Introduced the scheme of :

a) Provident Funds

b) Market Loans

c) Special Bearer Bonds

d) Resurgent India Bonds

Q4. Which of the following measures would result in an increase in the money supply in the economy?

- Purchase of government securities from the public by the Central Bank
- Deposit of currency in commercial banks by the public
- Borrowing by the government from the Central Bank
- Sale of government securities to the public by the Central Bank

Select the **correct** answer using the codes given below :
a) 2 and 4

b) 1 only

c) 1 and 3

d) 2, 3 and 4

Q5. Consider the following statements:

i. Open Market Operation is a monetary policy tool
ii. Open Market Operations take place in the secondary market
iii. Sterilization is a monetary policy tool

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

b) (iii) only

c) (i) only

d) All of the above

Q6. Consider the following statements regarding **Foreign Direct Investment (FDI)** :

i. FDI investment happens through the secondary market
ii. FDI investment is about equity securities
iii. FDI investment is about debt securities

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

b) (i) & (iii) only

c) (i) only

d) (ii) only

Q7. When there is an official change in the exchange rate of domestic currency, then it is called :

a) Revaluation

b) Deflation

c) Appreciation

d) Depreciation

Q8. What is the main cost-push factor in India?

- Problem of hoarding by traders and black marketeers
- Taxation which gives the traders an opportunity to raise the prices of goods, the proportion of which is often more than the levy of taxes
- Administered Prices
- Hike in Oil Prices

Choose the **correct** code.
a) 1, 2, 3, 4

b) 1, 2, 3

c) 1, 2

d) None of the Above

Q9. Which among 1the following is considered to be a part of Shadow Banking in India?

a) Business Correspondents

b) Non-Banking Financial Companies

c) Bankassurance Providers

d) Private Banks

Q10. “Bad money (if **not** limited in quantity) drives good money out of circulation.” The above statement is from which among the following laws?

a) Keynes’ law

b) Gresham’s law

c) Wagner’s law

d) Grimm’s law

Q11. Consider the following statements:

i. Non-Performing Assets of scheduled commercial banks is more than non-banking financial companies
ii. Presently, the Capital Adequacy Ratio of scheduled commercial banks is around 15%

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. Recently, one of the well known market analysts made this statement: “We expect the Reserve Bank of India to continue to ease liquidity” Which among the following instruments can be used by RBI to continue to ease liquidity?

- Cutting the frequency of Open Market Operations
- Cutting the Cash Reserve Ratio
- Cutting the Repo and Reverse Repo rates

Choose the **correct** options:
a) Only 1 & 2

b) Only 1

c) Only 2 & 3

d) 1, 2 & 3

Q13. The terms '**Bull**' and '**Bear**' are associated with

a) Stock Market

b) Internet Trade

c) Banking

d) Foreign Trade

Q14. Consider the following statements.

- Capital Adequacy Ratio (CAR) is the amount that banks have to maintain in the form of their own funds to offset any loss that banks incur, if the accountholders fail to repay dues.
- CAR is decided by each individual bank.

Which of the statements given above is/are **correct**?
a) Only 2

b) Neither 1 nor 2

c) Both 1 and 2

d) Only 1

Q15. Consider the following statements regarding "**Sovereign Wealth Funds (SWFs)**":

i. SWFs are State-owned investment funds
ii. SWFs are established through fiscal and trade surpluses
iii. They are used to stabilize the budget and economy of the country from excess volatility in revenues
iv. SWFs typically invests in government-owned projects/assets

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

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

c) (i) & (iv) only

d) (i), (ii) & (iii) only

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Answers to the above questions :

Q1. Answer: (c)

Currency pegging is the idea of fixing the exchange rate of a currency by matching its value to the value of another single currency or to a basket of other currencies, or to another measure of value, such as gold or silver.

A fixed exchange rate is usually used to stabilize the value of a currency, with respect to the currency or the other valuable it is pegged to.

Q2. Answer: (b)

Inflation occurs due to two main factors:

1. Increase in demand for goods & services,
2. Decrease in the supply of goods & services

Q3. Answer: (c)

The Special Bearer Bonds (Immunities And Exemptions) Act, 1981 laid down the purpose of such bonds as necessary to canalize for productive purposes black money which has become a serious threat to the national economy.

With a view to such canalization, the Central Government decided to issue at par certain bearer bonds to be known as the Special Bearer Bonds, 1991.

MACRO FUNDAMENTALS, GDP, INVESTMENT, GROWTH

DEMAND & SUPPLY, PROFIT LOSS, INFLATION & PRICE INDEX

FISCAL POLICY, PUBLIC FINANCE AND MONETARY POLICY

MONEY SUPPLY, BANKING AND FINANCIAL INSTITUTIONS

TAXES TYPES, METHODS & BUDGETING PROCESS

BANKING, SECURITY MARKET & INSURANCE

Q4. Answer: (c)

Q5. Answer: (d)

Open Market Operations (OMO) is a monetary policy tool where RBI buys/sells government securities in the secondary (open) market to increase or decrease the money supply.

Due to foreign investments inflow or outflow, the money supply in the Indian economy increases/ decreases. To prevent or sterilize the economy from such external shocks, RBI buys or sells government securities to keep the money supply unchanged.

This is called sterilization or Market Stabilization Scheme (MSS) and it is not a day to day phenomenon, rather less frequently used.

Q6. Answer: (d)

Q7. Answer: (a)

Revaluation is a calculated adjustment to a country's official exchange rate relative to a chosen baseline.

The baseline can be anything from wage rates to the price of gold to a foreign currency.

In a fixed exchange rate regime, only a decision by a country's government (i.e. central bank) can alter the official value of the currency.

It is the opposite of devaluation.

Q8. Answer: (a)

the main cost-push factor in India are:

1. Fluctuations in output and supply in both agriculture and industry sectors. Fluctuations in the output of food grains have been a major factor responsible for rising in food-grain prices as well as general prices. In the same way, the supply of manufactured goods also did not increase adequately in the last few years. Power breakdowns, strikes and lock-outs and shortage of transport facilities have been the major constraints responsible for lowering the production of manufactured goods. With ever-rising demand for manufactured goods, the producers are in a position to hike the prices of their products.
2. The problem of hoarding by traders and black marketeers.
3. Taxation gives the traders an opportunity to raise the prices of goods, the proportion of which is often more than the levy of taxes.
4. Administered Prices.
5. Hike in Oil Prices.

Q9. Answer: (b)

Q10. Answer: (b)

Q11. Answer: (b)

The Gross Non-Performing Advances ratio of Scheduled Commercial Banks has remained unchanged at 9.3 per cent between March and September 2019 and increased slightly for the Non-Banking Financial Corporations from 6.1 per cent to 6.3 per cent.

The capital to Risk-weighted Asset ratio (Capital adequacy ratio) of Scheduled Commercial Banks increased from 14.3 per cent to 15.1 per cent between March 2019 and September 2019.

Q12. Answer: (c)

Q13. Answer: (a)

The terms ‘bull’ and ‘bear’ describe upward and downward trends respectively of the stock market.

A bear market refers to a decline in prices, usually for a period of a few months, in a single security or asset, group of securities or the securities market as a whole.

A bull market is when prices are rising.

Q14. Answer: (d)

Q15. Answer: (d)

A Sovereign Wealth Fund (SWF) is a State (Government) owned investment fund or entity that is commonly established from export surpluses, fiscal surpluses, proceeds from privatization etc.

Countries generally create SWFs to diversify their revenue streams to protect and stabilize the budget and economy from excess volatility. For ex., UAE relies on oil exports for its wealth.

Hence, it devotes a portion of its reserves to an SWF that invests in diversified assets that can act as a shield against oil-related risks (when oil prices plunge, govt’s budgetary resources/taxes decline, and SWFs act as a buffer).

SWFs typically invest in multiple asset classes including publicly listed shares, fixed income, private equity, private debt, real estate, infrastructure etc.