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. Scheduled bank is a bank which is

a) Not Nationalised

b) Included in the second schedule of RBI

c) Based in foreign country

d) Nationalised

Q2. Which of the following statements are true regarding the term "**Crowd funding**"?

i. It is a method of financing through the internet/social media
ii. Small amounts of money are raised from a large number of investors
iii. It has the potential to increase entrepreneurship
iv. It is also referred to as marketplace financing

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

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

c) (i) & (ii) only

d) All of the above

Q3. Consider the following statements regarding ‘**Additional Tier 1 bonds**’:

i. They are part of capital under Basel III norms
ii. They are perpetual in nature and have no maturity period
iii. They can be written down in case of bank failure

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

b) (i) & (iii) only

c) (ii) only

d) All of the above

Q4. Consider the following statements with regard to Statutory Liquidity Ratio (SLR) :

- To meet SLR, Commercial banks can use cash only.
- SLR is maintained by the banks with themselves.
- SLR restricts the banks leverage in pumping more money into the economy.

Which of the statements given above is/are **correct**?
a) 1 and 3

b) 1, 2 and 3

c) 2 and 3

d) only 2

Q5. Consider the following statements regarding an economy facing deflation:

i. Companies defer their investments
ii. People defer their expenditures
iii. Demand decreases
iv. Unemployment increases

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

b) (iii) & (iv) only

c) (i) & (ii) only

d) All of the above

Q6. The amount of Money Supply in the economy affects the following macroeconomic variables:

a) Price level

b) Output

c) Rate of Interest

d) All of the above

Q7. With reference to India, consider the following.

- Nationalisation of Banks.
- Formation of Regional Rural Banks.
- Adoption of villages by Banks Branches.

Which of the above can be considered as steps taken to achieve the ‘financial inclusion’ in India?
a) 2 and 3

b) 1, 2 and 3

c) Only 3

d) 1 and 2

Q8. Which of the following statements are true regarding "**Domestic Systemically Important Banks (DSIB)**":

i. These are also called "too big to fail"
ii. They need to meet additional capital requirement
iii. The list of DSIB should be declared annually by RBI
iv. The list of DSIB is declared by the Ministry of Finance

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

b) (ii) & (iv) only

c) (i) & (ii) only

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

Q9. Consider the following statements:

- In Minimum Reserve System, RBI had to keep a minimum reserve of Gold worth ` 115 Crores and rest in Indian Rupees.
- The Minimum Requirement of Foreign Securities was diluted when Minimum Reserve System was launched.

Which among the above statement is / are **correct**?

a) Only 2 is correct

b) Only 1 is correct

c) Both of them are correct

d) Both of them are incorrect

Q10. In India, the interest rate on savings accounts in all the nationalised commercial banks is fixed by

a) Union Finance Commission

b) Banks itself

c) Indian Bank's Association

d) Union Ministry of Finance

Q11. Which action by the Reserve Bank would stimulate the economy in an economic downturn?

a) Selling government securities in the cash market

b) Selling foreign currencies on the foreign exchange market

c) Buying government securities in the cash market

d) Buying foreign currencies on the foreign exchange market

Q12. Which of the following measure of the high power money Supply (H) has been used by RBI in India?

a) Cash reserve of the commercial banks + other deposits with the RBI

b) Currency held by the public + Cash reserves of the commercial banks + Time deposits of commercial banks + Other deposits with the RBI

c) Currency held by the public + Cash reserves of the commercial banks + Other deposit with the RBI

d) Currency held by public + other deposits with the RBI

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Q13. The smaller the Cash Reserve Ratio, the scope for lending by banks is :

a) weaker

b) lesser

c) greater

d) smaller

Q14. 'Money is a matter of functions four, a medium, a measure a standard and .....'. What is the fourth function of money indicated in this popular phrase?

a) A flow

b) A payment

c) A store

d) A stock

Q15. The Laffer curve is the graphical representation of:

a) The relationship between tax rates and absolute revenue these rates generate for the government.

b) The inequality in income distribution.

c) The inverse relationship between the rate of unemployment and the rate of inflation in an economy.

d) The relationship between environmental quality and economic development.

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Answers to the above questions :

Q1. Answer: (b)

Q2. Answer: (d)

Crowd funding or marketplace financing refers to a method of funding a project or new venture through small amounts of money raised from a large number of people, typically through a portal (internet/social media) acting as an intermediary.

Crowd funding makes use of the easy accessibility of vast networks of people through social media and crowdfunding websites to bring investors and entrepreneurs together.

Crowd funding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners.

Q3. Answer: (d)

Additional Tier 1 Bonds (AT-1) bonds have several unusual features lurking in their fine print, which make them very different from normal bonds.

One, these bonds are perpetual and carry no maturity date. Instead, they carry call options that allow banks to redeem them after five or 10 years. But banks are not obliged to use this call (redeem) option and can opt to pay only interest on these bonds for eternity.

Two, banks issuing AT-1 bonds can skip interest payments for a particular year or even reduce the bonds' face value without getting into hot water with their investors, provided their capital ratios fall below certain threshold levels. These thresholds are specified in their offer terms.

Three, if the RBI feels that a bank is tottering on the brink (called point of non-viability) and needs a rescue, it can simply ask the bank to cancel its outstanding

AT-1 bonds without consulting its investors. AT-1 bonds are risky but people invest as it offers a higher interest rate. In case of a Yes Bank crisis, AT-1 bonds worth Rs. 8415 were written down in March 2020. (This means now investors will not get any interest or principal in future).

Under Basel III norms, banks need to have an 11.5% capital requirement in which 9.5% in Tier 1 capital and 2% is Tier 2 capital. Out of 9.5% Tier 1 capital, Additional Tier 1 capital (AT-1 bonds) can be 1.5%.

Q4. Answer: (c)

SLR used by bankers indicates the minimum percentage of deposits that the banks have to maintain in the form of gold, cash or other approved securities.

Q5. Answer: (d)

When the economy is facing deflation, that means prices are decreasing. In such a situation, whatever I can buy today in Rs. 100, the same Rs. 100 is able to purchase more in the next year.

This leads to postponement of purchase decisions by the people and the demand in the economy decreases. When the demand decreases, companies defer their production and investment decisions which lead to an increase in unemployment.

So, all the statements are correct.

Q6. Answer: (d)

The amount of money supply in the economy impacts prices i.e. when money supply increases inflation increases and when money supply decreases inflation decreases.

Money supply impacts GDP also, as more money is required to increase the output.

When the demand for money increases, rate of interest goes up in the economy. So, when money supply increases then rate of interest may cool/decrease in the economy and vice versa.

So, all statements are correct.

Q7. Answer: (b)

Q8. Answer: (d)

Some banks, due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness, become systemically important. The disorderly failure of these banks has the potential to cause significant disruption to the essential services they provide to the banking system, and in turn, to the overall economic activity.

Therefore, the continued functioning of Systemically Important Banks (SIBs) is critical for the uninterrupted availability of essential banking services to the real economy.

All the banks under D-SIB are subject to additional capital requirements. Banks whose assets exceed 2% of GDP are considered part of this group.

SIBs are perceived as banks that are 'Too Big To Fail (TBTF)'. This perception of TBTF creates an expectation of government support for these banks at the time of distress. Due to this perception, these banks enjoy certain advantages in the funding markets.

However, the perceived expectation of government support amplifies risk-taking, reduces market discipline, creates competitive distortions, and increases the probability of distress in the future. These considerations require that SIBs should be subjected to additional policy measures to deal with the systemic risks and moral hazard issues posed by them.

The concept of D-SIB emerged after the global financial crisis of 2008. As per the framework, from 2015, every August, RBI has to disclose names of banks designated as D-SIB.

Q9. Answer: (c)

Q10. Answer: (b)

Q11. Answer: (c)

Q12. Answer: (c)

Q13. Answer: (c)

Cash Reserve Ratio is a regulation set by the Central bank (RBI in India) which dictates the minimum amount (reserves) that a commercial bank must be held to customer notes and deposits.

A decrease in CRR will make it mandatory for the banks to hold a lesser proportion of their deposits in the form of deposits with the RBI. This will increase the number of Bank deposits and they will lend more as they have more amount as their reserve.

Q14. Answer: (c)

Q15. Answer: (a)

In economics, the Laffer curve is a hypothetical representation of the relationship between government revenue raised by taxation and all possible rates of taxation.

It is used to illustrate the concept of taxable income elasticity – which taxable income will change in response to changes in the rate of taxation.