

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. Consider the following statements:

- As per the Basel II accords, Banks have to maintain a minimum 8% CRAR
- Out of 8% Banks have to keep a Tier I Capital of 5%
- In India, the Banks are required to keep the CAR of 9% at least.

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

- a) Only 1 & 2
 - b) Only 1
 - c) Only 1 & 3
 - d) All are correct statements
-

Q2. If the US Central Bank raises their interest rate then it may lead to which of the following in the Indian economy:

- a) Rupee appreciation
 - b) Investors moving to India
 - c) Rupee depreciation
 - d) Increase in money supply
-

Q3. Which of the following are among the taxes levied exclusively by the Central Government and are mentioned in the Union List of the Seventh Schedule of the Constitution of India?

- Corporation Tax
- Taxes on advertisement in the newspapers
- Taxes on Agricultural income
- Taxes on consumption/sale of electricity

- a) Only 4
- b) Only 2

c) 1 and 2

d) 3 and 4

Q4. MUDRA Bank has been launched to help

a) Poor women

b) Rural sector

c) Small business

d) Marginal farmers

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Q5. Indian rupee had been made fully convertible on

a) current account in August, 1994

b) current account in April, 1995

c) capital account in August, 1994

d) current account on March 1, 1993

Q6. Consider the following statements regarding the insurance cover provided to depositors by **Deposit Insurance and Credit Guarantee Corporation (DICGC)**

- i. All commercial banks and urban cooperative banks have to register with DICGC for providing insurance to depositors
- ii. RBI incurs the insurance premium burden
- iii. Government incurs the insurance premium burden

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

a) (i) & (ii) only

b) (iii) only

c) (i) only

d) (i) & (iii) only

Q7. Name the 3 commodities in the Wholesale Price Index.

- Primary articles
- Fuel, power, light and lubricants
- Manufactured products
- Food articles and industrial raw materials

a) 2, 3 and 4

b) 1, 2 and 3

c) 1, 3 and 4

d) 1 and 3

Q8. What does the letter 'e' denotes in the term 'e - banking' ?

a) Electronic Banking

b) Expansion Banking

c) Essential Banking

d) Economic Banking

Q9. What is 'Future Trading'?

- It is a trade between two stock exchanges wherein it is decided to purchase stocks of each other on a fixed price throughout the year
- It is an agreement between two parties to buy or sell an underlying asset in the future at a predetermined price
- It is an agreement between stock exchange that they will **not** trade in stocks of each other in future or for a predetermined period of time

a) 2 only

b) 1 only

c) 3 only

d) All 1, 2 and 3

Q10. Consider the following statements regarding the "**Banks Board Bureau (BBB)**" constituted in 2016:

- i. It will be responsible for the appointment of heads in PSBs and Financial Institutions

- ii. It will help PSBs in developing strategies and capital raising plans
- iii. It will improve the governance of the Public Sector Banks (PSBs)

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
-

Q11. In India, regional rural banks were established in the year

- a) 1975
 - b) 1982
 - c) 1980
 - d) 1976
-

Q12. With reference to inflation in India, which of the following statements is **correct**?

- a) The Reserve Bank of India has no role in controlling the inflation
- b) Controlling the inflation in India is the responsibility of the Government of India only
- c) Decreased money circulation helps in controlling the inflation
- d) Increased money circulation helps in controlling the inflation

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Q13. Which of the following are part of **Monetary Base** of an economy?

- i. Currency notes and coins with the public
- ii. Vault cash of commercial banks
- iii. Deposits of commercial banks with RBI
- iv. Deposits of Government of India with RBI

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

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

Q14. Credit creation power of the commercial banks gets limited by which of the following?

- a) Cash reserve ratio
 - b) All of the above
 - c) Credit policy of the central bank
 - d) Banking habits of the people
-

Q15. Consider the following statements regarding the '**Supervisory Action Framework**':

- i. It is applicable for UrbanCooperative banks
- ii. It can be initiated in case of serious governance issues

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

- a) (ii) only
 - b) Both (i) & (ii)
 - c) (i) only
 - d) Neither (i) nor (ii)
-

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Answers to the above questions :

Q1. Answer: (c)

Q2. Answer: (c)

When the US Federal Bank increases the interest rate, then the foreign investors sell their investments in India (mostly debt instruments) and move to US. In the process they convert the Rupee into dollars in the forex market and the demand for dollar increases and rupee depreciates.

Money supply in the Indian economy will decrease in this case because foreign investors are selling their investments and taking money out of India.

Q3. Answer: (c)

Taxes on Agricultural income and Taxes on consumption/sale of electricity are levied by the State Governments.

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Q4. Answer: (c)

Micro Units Development and Refinance Agency Bank (or MUDRA Bank) is a new institution set up by the Government of India to provide funding to the non-corporate small business sector.

It will provide its services to small entrepreneurs outside the service area of regular banks, by using last mile agents.

Q5. Answer: (d)

Q6. Answer: (c)

As per "The Deposit Insurance and Credit Guarantee Corporation (DICGC) Act 1961", DICGC must register all commercial banks (scheduled and non-scheduled both) and Urban Cooperative Banks (UCB) and State and District Central Cooperative Banks (StCB/DCCB) as an insured bank. (StCB/DCCB are rural cooperative banks)

And every insured bank is liable to pay a premium to DICGC as may be notified by DICGC after the approval of RBI. But the premium shall not exceed fifteen paise per annum for every hundred rupees of the total amount of the deposits in that bank.

This means the premium has been capped under the DICGC Act. As per the rules, the premium cost is required to be borne by the bank themselves and cannot be passed on to depositors.

Since the insurance cover has been increased from the present Rs. 1 lakh per depositor per bank to Rs. 5 lakh per depositor per bank, the insurance premium has also been increased from presently 10 paise per Rs. 100 of deposit to 12 paise per Rs. 100 of deposit.

Deposits of foreign governments, deposits of central and state governments, and interbank deposits are not covered/insured.

Q7. Answer: (b)

Q8. Answer: (a)

'e-banking' stands for electronic banking which involves the use of computers to carry out banking transactions such as withdrawals through cash dispensers or transfer of funds at point of sale. It is also known as online or interne banking.

Q9. Answer: (a)

Q10. Answer: (d)

With a view to improving the Governance of Public Sector Banks (PSBs), the Gol appointed an autonomous Banks Board Bureau (BBB) which started functioning from 1st April 2016. The Board has three ex-officio members and three expert members in addition to a Chairman. The following are the functions of the BBB

It will be responsible for the selection and appointment of Board of Directors in PSBs and Financial Institutions (FIs) It will advise the Government on matters relating to appointments, confirmation or extension of tenure and termination of services of the Board of Directors

It will help banks to develop a robust leadership succession plan for critical positions

It will build a data bank containing data relating to the performance of PSBs/FIs and their officers It will advise the Government on the formulation and enforcement of a code of conduct and ethics for managerial personal in PSBs/FIs

It will advise the Government on evolving suitable training and developmentØ programmes for management personnel in PSBs/FIs

It will help banks in terms of developing business strategies and capital raising planØ etc.

Q11. Answer: (b)

Q12. Answer: (c)

When inflation becomes very high, the RBI decreases supply of money (to check inflation) by adopting light monetary policy.

Q13. Answer: (d)

Monetary Base or High-Powered Money is the total liability of the Monetary Authority of India i.e. RBI.

All the currency notes and coins issued by RBI does not matter who is holding them, is always the liability of RBI. When Government and banks deposit their money with RBI, it becomes the liability of RBI. (In the same way as when you deposit money in your bank, then the deposits become the bank's liability towards you).

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

Q14. Answer: (b)

Q15. Answer: (b)

Since a lot of urban-cooperative banks (UCBs) were also facing issues, RBI has brought in the "Supervisory Action Framework" (SAF) for UCBs in place of PCA for commercial banks. The three parameters (NPA level, Return on Assets

i.e. profit and Capital Adequacy Ratio), based on which PCA is invoked, SAF is also invoked based on three similar parameters (NPA level, two consecutive years loss and capital adequacy ratio), but the level may be different at which SAF is triggered.

SAF in UCB can also be initiated in case of serious governance issues. Once a UCB has been put under SAF, various restrictions on dividends, donations, new loans, capital expenditure etc. can be imposed, which are again similar to PCA restrictions.

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