

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. Consider the following statements regarding 'ways and means' advance:

- i. It is available for both Central and State governments
- ii. Government need to pay interest on ways and means advance
- iii. It is to meet the temporary mismatches of receipts and payments

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
-

Q2. In the context of Indian economy, 'Open Market Operations' refers to

- a) lending by commercial banks to industry and trade
 - b) None of the above
 - c) purchases and sale of government securities by the RBI
 - d) borrowing by scheduled banks from the RBI
-

Q3. Assertion (A):

Devaluation of a currency may promote export.

Reason (R):

The price of the country's products in the international market may fall due to devaluation.

In the context of the above two statements, select the **correct** answer from the codes given below.

- a) Both (A) and (R) are true, but (R) is not the correct explanation of (A)
- b) (A) is false, but (R) is true
- c) (A) is true, but (R) is false

d) Both (A) and (R) are true and (R) is the correct explanation of (A)

Q4. Which of the following would best describe the role of a merchant bank?

- a) To monitor the activities of publicly-list companies
- b) To provide borrowing and leading services, primarily to the business sector
- c) To act as banker and financial agent to the federal government
- d) To provide loans to the corporate sector through receipts of insurance premiums

5000+ FREE INDIAN ECONOMY MCQ QUESTION BANK FOR ALL SSC, UPSC, BANK, RAILWAY EXAMS

[Free Practice MCQs »](#)

[Download More PDF »](#)

[Free Online Quiz »](#)

Q5. Under flexible exchange rate system, the exchange rate is determined by

- a) the price of gold
 - b) the purchasing power of currencies
 - c) the Central Bank of the country
 - d) the forces of demand and supply in the foreign exchange market
-

Q6. Consider the following statements:

- i. Foreign Portfolio investments are more volatile than FDI
- ii. FDI investors can easily sell their holdings and quit the market
- iii. Foreign Portfolio investment is sector-specific
- iv. FDI investment in general targets the capital market

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

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

Q7. Enforcement Directorate enforces which of the following laws:

- i. Foreign Exchange Management Act (FEMA) Act 1999
- ii. Prevention of Money Laundering Act (PMLA) 2002

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

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

Q8. When the Reserve Bank of India was established?

- a) 1930
 - b) 1940
 - c) 1935
 - d) 1920
-

Q9. Land Development Bank provides loan to farmers for

- a) medium term
 - b) only for land improvement
 - c) long term
 - d) short term
-

Q10. Consider the following liquid assets.

- Demand deposits with the banks
- Time deposits with banks
- Savings deposits with banks
- Currency

The **correct** sequence of these assets in the decreasing order of liquidity is

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

d) 1, 4, 3, 2

Q11. Which of the following grants / grant direct credit assistance to rural households?

- Regional Rural Banks
- National Bank for Agriculture and Rural Development
- Land Development Banks

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

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

Q12. 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 account-holders fail to repay dues.
- CAR is decided by each individual bank.

Which of the statements given above is/are **correct**?

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

1000+ FREE MONEY SUPPLY, BANKING AND FINANCIAL INSTITUTIONS BASED QUESTIONS AND ANSWERS FOR ALL COMPETITIVE EXAMS

[Free Practice MCQs »](#)

[Download More PDF »](#)

[Free Online Quiz »](#)

Q13. Consider the following statements regarding **MUDRA Bank**:

- It will provide direct lending to small entrepreneurs
- MUDRA loans will be available for agriculture, manufacturing, trading and service activities

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

- a) (ii) only

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

Q14. In which year the export-import (EXIM) Bank in India was set up?

- a) 1982
 - b) 1989
 - c) 1981
 - d) 1980
-

Q15. RBI keeps its foreign exchange reserves with which of the following agency/ies?

- i. Bank for International Settlement (BIS)
- ii. Foreign Commercial banks
- iii. Other/foreign Central banks
- iv. Other institutions approved by Central Board of RBI

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

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

[Read More money and supply banking financial institutions Question and Answers »](#)

Answers to the above questions :

Q1. Answer: (d)

The Reserve Bank of India gives temporary loan facilities to the centre and state governments as a banker to the government. This temporary loan facility is called Ways and Means Advances (WMA).

The WMA scheme was designed to meet temporary mismatches in the receipts and payments of the government. This facility can be availed by the government if it needs immediate cash from the RBI.

The WMA is a loan facility from the RBI for 90 days which implies that the government has to vacate the facility after 90 days.

The interest rate for WMA is currently charged at the repo rate. The limits for WMA are mutually decided by the RBI and the Government of India.

Q2. Answer: (c)

Q3. Answer: (d)

5000+ INDIAN ECONOMY MCQ TOPIC WISE MCQ QUESTION BANK WITH SOLVED ANSWERS & FREE PDF

INTRODUCTION TO INDIAN ECONOMY

PLANNING, ECONOMIC DEVELOPMENT & FIVE YEAR PLANS

NATIONAL INCOME & HUMAN DEVELOPMENT INDEX

AGRICULTURE SECTOR, SUBSIDY AND FOOD PROCESSING

INDUSTRIES, MANUFACTURING & SERVICE SECTORS

INCLUSIVE GROWTH, SUSTAINABLE DEVELOPMENT AND EMPLOYMENT

POVERTY & UNEMPLOYMENT INTRODUCTION TO MICRO ECONOMICS

INTRODUCTION TO MACRO ECONOMICS

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

Q4. Answer: (b)

Q5. Answer: (d)

A floating exchange rate is a type of exchange rate regime wherein a currency's value is allowed to fluctuate according to the foreign exchange market.

It refers to a country's exchange rate regime where its currency is set by the foreign exchange market through supply and demand for that particular currency relative to other currencies.

Q6. Answer: (c)

FDI FPI/FII 1 It is only in equity/shares/ownership It is both in equity and debt (loan) 2 It is through primary market Generally, through the secondary market but can happen through primary market 3 Generally new shares are issued and the new capital (money) comes to the company through which the company invests in the new factory, machines etc.

Generally, only the owners change hands and new capital does not come to the company 4 The foreign investors purchase large shareholding and appoints Board of Directors and get involved in the decision making (active management) of the company Foreign investors generally purchase small shareholdings and do not get involved in the management of the company 5 Foreign investors try to make the company profitable through their decision making and target the profit of the company Foreign investors target the share price of the company and derive their gain from rising of share prices 6 It is sector-specific.

For example, a steel company in the US will invest only in a steel company in India and try to make that company profitable through their management and decision making and get a share of the profit It is in the general capital market.

For example, a foreign investor is not particular about any company/ sector in India and is willing to invest in any company which gives a chance of share price appreciation 7 It is a long-term investment as to turn the company profitable, the foreign investor needs to get invested for a long time.

It is generally short-term investment 8 Generally, the government specify a lock-in period and during this period the foreign investor cannot sell his investment and hence it is quite stable There is no lock-in period and the foreign investor can return any time by selling his investment. This makes the currency volatile

Q7. Answer: (b)

Directorate of Enforcement is a specialized financial investigation agency under the Department of Revenue, Ministry of Finance, Government of India, which enforces the following laws: -

Foreign Exchange Management Act, 1999 (FEMA) - A Civil Law, with officers empowered to conduct investigations into suspected contraventions of the Foreign Exchange Laws and Regulations, adjudicate and impose penalties on those adjudged to have contravened the law.

Prevention of Money Laundering Act, 2002 (PMLA) - A Criminal Law, with the officers empowered to conduct investigations to trace assets derived out of the proceeds of crime, to provisionally attach/ confiscate the same, and to arrest and prosecute the offenders found to be involved in Money Laundering.

Q8. Answer: (c)

Q9. Answer: (c)

Q10. Answer: (b)

Q11. Answer: (c)

Land development banks started financing long term loans for more significant rural development activities like rural and cottage industries, rural artisans etc.

The main purpose of RRBs is to mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans.

Q12. Answer: (c)

Capital Adequacy Ratio (CAR) is the ratio of a bank's capital to its risk-weighted asset ratio. A bank's capital consists of Tier1 (share) and Tier2 (bonds) capital.

The bank has to maintain this capital so that, if there are defaults then the bank should be able to sustain. RBI mandates how much CAR has to be maintained by banks.

Q13. Answer: (d)

MUDRA would be responsible for refinancing all Last Mile Financiers such as

1. NonBanking Finance Companies,
2. Societies,
3. Trusts,
4. Companies,
5. Co-operative Societies,
6. Small Banks,
7. Scheduled Commercial Banks and
8. Regional Rural Banks

Which are in the business of lending to micro/small business entities engaged in manufacturing, trading and services activities (not for agriculture).

Refinancing means MUDRA loans will be available through Banks/NBFCs/MFIs and not directly from MUDRA Bank.

MUDRA loans are available in three categories. For a small business, loans up to 50000/- is available under the 'Shishu' category, beyond 50,000 and up to 5 lakhs under the 'Kishor' category and between 5 lakhs to 10 lakhs under the 'Tarun' category.

These products have been designed to cater to customers operating at the lower end of the enterprise spectrum i.e. informal/unorganized sector.

Q14. Answer: (a)

Q15. Answer: (d)

Reserve Bank of India invests the reserves in the following types of instruments:

1. Deposits with Bank for International Settlements
2. Deposits with other central banks
3. Deposits with foreign commercial banks

4. Debt instruments representing sovereign or sovereign-guaranteed liability
5. Other instruments/institutions as approved by the Central Board of RBI

On our site **Careerions.com**, You can find all the content you need to prepare for any kind of exam like. **Verbal Reasoning, Non-Verbal Reasoning, Aptitude, English, Computer, History, Polity, Economy, Geography, General Science, General Awareness** & So on. Make use of our expert-curated content to get an edge over your competition and prepare for your exams effectively.

Practice with our **Free Practice MCQs, Mock Tests Series, Online Quiz** and get an idea of the real exam environment. Keep track of your progress with our detailed performance reports. They are perfect for competitive exam preparation, as well as for brushing up on basic & fundamental knowledge. The questions are updated regularly to keep up with the changing syllabuses.

Careerions.com