Money and Banking
Multiple Choice Questions
[Select the best alternative]

Module 1: What is Money?

1. Barter cannot function well

   (a) because goods are not always divisible.
   (b) because transaction costs are minimal.
   (c) because goods are always standardized.

2. Money

   (a) is a flow variable.
   (b) includes checkable deposits with banks.
   (c) includes gold and silver.

3. Price of money

   (a) does not exist because it is not a good that one can purchase from the market.
   (b) at best can be the inflation rate.
   (c) is best measured in terms of opportunity cost of holding money.

4. Paper currency is known as ‘fiat money’

   (a) because only a fraction of total currency is in coins.
   (b) because it is decreed legal tender.
   (c) because it cannot be used as payment for debts.

5. Near-Money

   (a) is as liquid as currency.
   (b) can be used as a medium of exchange.
   (c) serves only store of value function of money.

6. Zero coupon bond is a

   (a) discount bond.
   (b) coupon bond.
   (c) None of the above.

7. A consol

   (a) is sold at a discount.
   (b) does not specify maturity period.
   (c) None of the above.

8. Return on a bond

   (a) is yield to maturity of the bond.
   (b) is coupon payment of the bond.
   (c) depends upon current price of the bond.

9. Yield to maturity

   (a) is current price of a bond.
   (b) is coupon payment of a bond.
   (c) is related to price of a bond.

10. Indexed bonds

    (a) carry fixed interest payments.
    (b) adjust coupon rates to changes in general price level.
    (c) adjust face values to changes in general price level.

Module 2: Money Supply

1. 'Public' in monetary aggregates

    (a) implies government.
    (b) does not include nonbanks.
    (c) excludes banks.

2. 'Banks' in monetary aggregates

    (a) include co-operative banks.
    (b) include only commercial banks.
    (c) do not include the RRBs.

3. Bankers' Deposits with the RBI

    (a) are included in monetary base.
    (b) are excluded from monetary base.
    (c) are included in narrow money.

4. 'Other Deposits with the RBI'

    (a) are a substantial portion of our monetary base.
    (b) are due to banks' CRR obligation.
    (c) None of the above.

5. Currency in Circulation is a part of

    (a) M0.
    (b) M1.
    (c) M3.

6. The difference between M2 and M4 is

    (a) due to exclusion (inclusion) of total Post Office Savings Bank Deposits.
    (b) due to exclusion (inclusion) of Post Office Savings Bank Time Deposits.
    (c) due to exclusion (inclusion) of Post Office Savings Bank Demand Deposits.

7. MO is primarily driven by

    (a) Bankers' Deposits with the RBI.
    (b) Currency in Circulation.
    (c) Other Deposits with the RBI.

8. Variance of growth among M1, M3 and M0

    (a) is the lowest for M1.
    (b) is the lowest for M3.
    (c) is the lowest for M0.

9. Despite recession

    (a) share of Time Deposits in M3 has been increasing.
    (b) shares of Demand Deposits and Currency in M3 have been increasing.
    (c) None of the above.

10. One of the purposes behind formation of the three new monetary aggregates

    (a) is to separate Demand Deposits from other deposits.
    (b) is to separate very long term Time Deposits from other Time Deposits.
    (c) is to consider residents and non-residents together.

11. Velocity of money

    (a) changes very slowly according to Fisher.
    (b) does not change according to some Cambridge economists.
    (c) is increasing over time in India.

12. One among the following is <u>not</u> a 'source' of monetary base in India.

    (a) bank reserves
    (b) Net RBI Credit to Governments
    (c) RBI's Net Foreign Exchange Assets

13. The most dominating ‘source’ of monetary base in India has been

(a) Net RBI Credit to Governments.
(b) Net Foreign Exchange Assets of the RBI.
(c) bank reserves.

14. ‘Complex’ money multiplier in India

(a) has increased in the new century.
(b) has decreased in the new century.
(c) seems to fluctuate widely over time.

15. If time deposit to demand deposit ratio increases

(a) the complex multiplier increases.
(b) the simple multiplier decreases.
(c) both the multipliers will shrink.

Module 3: Money Market

1. DFHI

(a) is a Non-intermediary financial institution.
(b) is a capital market institution.
(c) is a primary dealer.

2. Non-Banking Statutory Financial Organisations (NBSFO)

(a) are Regulatory institutions.
(b) are Other money market institutions.
(c) are Non-intermediary financial institutions.

3. UTI

(a) is a Non-intermediary financial institution.
(b) is an Intermediary financial institution.
(c) is a Regulatory institution.

4. Call money

    (a) is borrowed by Non-banks from banks.
    (b) is unavailable in unorganized money market.
    (c) is primarily lent by commercial banks.

5. Commercial Papers

    (a) are sold by the banks for short term purposes.
    (b) are like coupon bonds which carry a fixed interest payment.
    (c) can develop a secondary market.

6. Gilt-edged market

    (a) deals with industrial securities.
    (b) is a risk free market.
    (c) is also known as stock market.

7. Presently, participants in the call market

    (a) include some NBFIs.
    (b) borrow and lend at fixed rates.
    (c) also include primary dealers.

8. CPs

    (a) were launched in the Indian money market before CDs.
    (b) are issued by scheduled commercial banks.
    (c) can be bought by banks as well.

9. CPs

    (a) have a minimum issue size of Rs 5 lakhs.
    (b) have a minimum maturity of 7 days.
    (c) have a lock-in period.

10. CDs

(a) cannot be transacted in the secondary market.
(b) can be issued only by scheduled banks.
(c) are subjected to CRR and SLR.

11. CDs

(a) have a lock-in period.
(b) have a minimum issue size of Rs 5 lakhs.
(c) are mainly issued by corporate companies.

12. In recent years

(a) the 364-day bill has been the most popular.
(b) the 182-day bill has been the most popular.
(c) the 91-day bill has been the most popular.

13. Year-end implicit yield

(a) of all TBs are very similar.
(b) of TBs vary greatly across different maturity.
(c) None of the above.

14. The RBI repo market

(a) will not exist if there are no CRR or SLR obligations of banks.
(b) is complementary to the inter-bank call market.
(c) transacts various types of securities other than government securities.

15. The LAF Repo market always has

(a) the Repo rate higher than the RRepo rate.
(b) the RRepo rate higher than the Repo rate.
(c) None of the above.

Module 4: Reserve Bank of India

1. ‘Managed paper currency standard’

   (a) requires the central bank to be the sole issuer of currency.
   (b) requires paper currency in circulation to be backed by gold, foreign currency etc.
   (c) requires currency in circulation to have a proper balance between notes and coins.

2. Paper currencies

   (a) are put into circulation by the Issue Department of the RBI.
   (b) are liabilities of the Issue Department.
   (c) are liabilities of the Banking Department of the RBI.

3. ‘Ways and means advances’

   (a) are given to the central government against TBs.
   (b) are given both to the central and state governments.
   (c) are given only to the central government.

4. As a tool of monetary policy in India

   (a) CRR is more often used than SLR.
   (b) Bank Rate is more often used than CRR.
   (c) open market operations are never used.

5. SLR reserves of scheduled banks

   (a) are kept with the RBI.
   (b) can be partly held in current accounts of other banks.
   (c) are maintained on a weekly basis.

6. Unencumbered securities

   (a) are the same as ‘other approved securities’.
   (b) are never accepted by the RBI.
   (c) can be used for SLR.

7. Selective Credit Control methods

    (a) are presently actively used by the RBI.
    (b) are one of the oldest form of traditional credit control instruments.
    (c) were meant to control speculative activities among other things.

8. Autonomous liquidity

    (a) includes accommodations under WMA.
    (b) includes OMOs of the RBI.
    (c) includes net REPO sales to banks.

9. Discretionary liquidity

    (a) contains RBI subscription to TBs.
    (b) contains net REPO sales of the RBI.
    (c) contains rupee coins issued by the government.

10. ILAF

    (a) operated with market determined Repo rates.
    (b) provided liquidity management with a basket of instruments.
    (c) did not make use of OMOs.

11. The primary objective (s) of the LAF

    (a) is to provide support to inter-bank call market.
    (b) is to control cost and quantum of short term market liquidity.
    (c) is to stabilize the market for government dated securities.

12. Primary dealers

    (a) are stand alone market intermediaries.
    (b) are free to underwrite any amount of an issue.
    (c) have minimum underwriting commitment.

Module 5: Banking Institutions

1. Scheduled banks

   (a) can only be public sector banks.
   (b) include RRBs.
   (c) do not include co-operative banks.

2. Lead Bank Scheme of the RBI

   (a) attempts to develop the RRBs.
   (b) attempts to improve performance of banks.
   (c) attempts to develop social banking in India.

3. Action Plans

   (a) are supposed to improve performance of banks.
   (b) are meant to prepare ‘block credit plans’.
   (c) are supposed to improve quality of rural credit.

4. The Service Area Approach

   (a) requires banks to open branches in unbanked areas.
   (b) requires banks to expand banking facilities in under-banked areas.
   (c) requires banks to improve quality of rural credit so that rural income increases.

5. Contributions to the paid-up capital of a RRB are as follows:

   (a) sponsoring bank: 35%; central government: 15%; state government: 50%.
   (b) central government: 50%; state government: 35%; sponsoring bank: 15%.
   (c) central government: 50%; state government: 15%; sponsoring bank: 35%.

6. The bulk of the ‘liabilities’ of scheduled banks

   (a) is Liabilities to the Banking System.
   (b) is Liabilities to Others.
   (c) is Borrowings from the RBI.

7. The bulk of the ‘assets’ of scheduled commercial banks

    (a) is Bank Credit.
    (b) is Investment.
    (c) is Assets with the Banking System.

8. In recent years

    (a) share of Bank Credit has been falling.
    (b) share of Investment has been falling.
    (c) None of the above.

9. The bulk of the Cash and Balances with the RBI

    (a) is Cash.
    (b) is Balances with the RBI.
    (c) None of the above.

10. The bulk of the Investments of scheduled commercial banks

    (a) is in Government Securities.
    (b) is in Other Approved Securities.
    (c) None of the above.

11. For working capital, banks prefer

    (a) cash credits.
    (b) demand loans.
    (c) term loans.

12. Co-operative banks

    (a) cannot create credit.
    (b) are of ‘unit banking’ type.
    (c) cannot mobilize deposits.

13. Primary Agricultural Credit Societies

(a) operate at district level.
(b) are of ‘unit’ banking type.
(c) lend long term rural credit.

14. In long term rural credit at village level

(a) Central land Development Banks operate.
(b) branches of State Land Development Banks operate.
(c) None of the above.

15. In urban India

(a) there are only urban co-operative banks.
(b) some state co-operative banks also operate.
(c) some PACSs also operate.