

UNIT 5- MONEY AND BANKING

1. **Which of the following is the primary function of money?**
 - a) Store of value
 - b) Unit of account
 - c) Medium of exchange
 - d) All of the above
2. **The term 'liquidity' in the context of money refers to:**
 - a) The ability of money to retain its value
 - b) The ability to convert money into cash
 - c) The ease with which an asset can be converted into a medium of exchange
 - d) The ability of money to be stored over time
3. **Which of the following is NOT a function of money?**
 - a) Medium of exchange
 - b) Standard of deferred payment
 - c) Store of value
 - d) Store of wealth
4. **Which of the following is considered as legal tender?**
 - a) Coins issued by Reserve Bank of India
 - b) Banknotes issued by commercial banks
 - c) Banknotes issued by Reserve Bank of India
 - d) Paper notes issued by the government
5. **Which of the following is the most important function of the Reserve Bank of India (RBI)?**
 - a) Issuing currency
 - b) Lending to commercial banks
 - c) Managing foreign exchange
 - d) Regulation of credit
6. **The Reserve Bank of India is the sole issuer of:**
 - a) Coins
 - b) Currency notes
 - c) Securities
 - d) Deposits
7. **The primary objective of the monetary policy in India is to:**
 - a) Control inflation
 - b) Promote economic growth
 - c) Manage exchange rates
 - d) Maintain government debt
8. **A central bank uses open market operations to:**
 - a) Control money supply
 - b) Buy and sell government securities
 - c) Influence interest rates
 - d) All of the above
9. **Which of the following is NOT a tool of the central bank for controlling money supply?**
 - a) Bank rate
 - b) Open market operations
 - c) Cash reserve ratio
 - d) Interest rate on loans to the government

10. **The Reserve Bank of India regulates commercial banks through:**
 - a) Licensing
 - b) Prudential norms
 - c) Capital adequacy requirements
 - d) All of the above
11. **What does the term 'bank rate' refer to?**
 - a) The rate of interest charged by banks on loans to their customers
 - b) The rate at which the central bank lends to commercial banks
 - c) The rate at which commercial banks lend to each other
 - d) The rate of interest on savings deposits
12. **What is the Cash Reserve Ratio (CRR)?**
 - a) The ratio of cash reserves kept by the central bank
 - b) The minimum percentage of a commercial bank's total deposit that must be kept in reserve
 - c) The percentage of commercial bank reserves invested in government securities
 - d) The interest rate at which the central bank lends to commercial banks
13. **Which of the following statements is true regarding the Money Supply?**
 - a) Money supply includes only currency and coins
 - b) Money supply includes currency in circulation, deposits, and reserve balances
 - c) Money supply is only measured by physical currency
 - d) Money supply is controlled exclusively by commercial banks
14. **Which of the following is NOT a feature of commercial banks?**
 - a) Accepting deposits
 - b) Issuing currency
 - c) Providing loans
 - d) Creating credit
15. **The central bank controls the currency and credit system of a country through:**
 - a) The ministry of finance
 - b) Commercial banks
 - c) Monetary policy
 - d) Fiscal policy
16. **Which of the following is an example of a primary function of commercial banks?**
 - a) Lending to the government
 - b) Managing foreign exchange
 - c) Accepting deposits
 - d) Regulating the economy
17. **What is the process by which commercial banks create money?**
 - a) Loan creation
 - b) Currency printing
 - c) Money multiplier effect
 - d) Open market operations
18. **Which of the following is the role of a commercial bank in the economy?**
 - a) Controlling inflation
 - b) Managing national debt
 - c) Facilitating payments and credit creation
 - d) Setting tax rates
19. **Which of the following is an example of a non-performing asset (NPA) for a commercial bank?**
 - a) A loan that is paid on time

- b) A loan that is overdue by more than 90 days
 - c) A deposit with no withdrawals for six months
 - d) Government bonds held by a commercial bank
20. **The 'banking sector' in India is regulated by:**
- a) Ministry of Finance
 - b) Reserve Bank of India
 - c) Securities and Exchange Board of India
 - d) Indian Government
21. **Which of the following is the objective of 'Quantitative Easing' policy?**
- a) To reduce inflation
 - b) To increase the money supply by purchasing government securities
 - c) To increase interest rates
 - d) To increase taxes
22. **The central bank's role in controlling inflation is through:**
- a) Monetary policy tools
 - b) Direct government intervention
 - c) Currency devaluation
 - d) Increasing public spending
23. **What does the term 'banking sector liquidity' refer to?**
- a) The ability of commercial banks to meet their liabilities
 - b) The total amount of currency circulating in the economy
 - c) The amount of gold held by commercial banks
 - d) The number of loans provided by banks
24. **The function of 'Open Market Operations' (OMO) is:**
- a) To regulate foreign exchange rates
 - b) To buy or sell government securities to control money supply
 - c) To adjust the discount rate
 - d) To lend to commercial banks at a higher rate
25. **Which of the following is an example of indirect lending by a commercial bank?**
- a) Offering overdrafts
 - b) Providing loans to businesses
 - c) Issuing fixed deposits
 - d) Buying government bonds
26. **What is the role of commercial banks in credit creation?**
- a) They maintain reserves in central banks
 - b) They issue currency to the public
 - c) They extend loans to borrowers, creating new money
 - d) They buy and sell securities
27. **Which of the following is included in the M1 measure of money supply?**
- a) Savings account deposits
 - b) Currency in circulation
 - c) Fixed deposits
 - d) All of the above
28. **Which of the following is true about the repo rate?**
- a) It is the rate at which commercial banks borrow from the RBI on a short-term basis
 - b) It is the rate at which RBI borrows from commercial banks
 - c) It is the rate at which commercial banks charge for overdrafts
 - d) It is the rate at which commercial banks lend to the public
29. **The main objective of the RBI's monetary policy is to:**
- a) Control inflation

- b) Increase government revenue
 - c) Maintain a balanced budget
 - d) Enhance export growth
30. **Which of the following is an example of an 'asset' for a commercial bank?**
- a) Deposits held by the bank
 - b) Loans given to customers
 - c) The capital reserve of the bank
 - d) Government securities held by the bank
31. **The primary source of commercial bank's revenue is:**
- a) Government grants
 - b) Loans and advances
 - c) Foreign investments
 - d) Taxation
32. **What is the purpose of a 'Cash Reserve Ratio' (CRR)?**
- a) To increase the money supply
 - b) To regulate the liquidity in the banking system
 - c) To determine the exchange rate
 - d) To regulate foreign direct investment
33. **Which of the following is NOT a service provided by commercial banks?**
- a) Accepting deposits
 - b) Lending to customers
 - c) Managing government debt
 - d) Providing foreign exchange services
34. **Which of the following is the primary objective of the central bank?**
- a) Profit maximization
 - b) Public sector lending
 - c) Monetary stability and economic growth
 - d) Tax collection
35. **What is the definition of 'monetary policy'?**
- a) Government decisions regarding taxes and public expenditure
 - b) Actions taken by the central bank to control money supply and interest rates
 - c) Decisions about trade and tariffs
 - d) Policies regarding government spending
36. **Which of the following is a characteristic of 'liquid money'?**
- a) It can be easily converted into goods and services
 - b) It requires time to be converted into physical currency
 - c) It is backed by gold reserves
 - d) It represents long-term investment assets
37. **Which of the following entities is responsible for regulating and supervising commercial banks in India?**
- a) Government of India
 - b) Ministry of Finance
 - c) Reserve Bank of India
 - d) Securities and Exchange Board of India
38. **The term 'discount rate' refers to:**
- a) The interest rate charged by the central bank to commercial banks for short-term loans
 - b) The rate at which commercial banks lend to customers
 - c) The rate at which commercial banks charge for overdrafts
 - d) The rate charged on deposits

39. **What is the effect of an increase in the CRR (Cash Reserve Ratio) by the central bank?**
- a) It increases the money supply in the economy
 - b) It decreases the money supply in the economy
 - c) It has no impact on money supply
 - d) It increases interest rates
40. **Which of the following is an example of a commercial bank's liability?**
- a) Loans given to customers
 - b) Government bonds held by the bank
 - c) Deposits made by customers
 - d) Cash held in the vault
41. **Which of the following is NOT a part of the RBI's role in currency management?**
- a) Issuing currency notes
 - b) Printing coins
 - c) Regulating exchange rates
 - d) Monitoring counterfeit currency
42. **The major function of the Central Bank is to:**
- a) Issue currency notes and coins
 - b) Control credit creation by commercial banks
 - c) Lend money to the government
 - d) Both a and b
43. **The major source of commercial bank's revenue is:**
- a) Charges on deposits
 - b) Loans and advances interest
 - c) Government subsidies
 - d) Investments in foreign markets
44. **What is meant by 'monetary expansion'?**
- a) Increasing the reserve requirements for commercial banks
 - b) Lowering interest rates and increasing money supply
 - c) Decreasing the money supply
 - d) Imposing higher taxes on savings
45. **Which of the following is an example of a monetary policy tool?**
- a) Tax cuts
 - b) Open market operations
 - c) Trade tariffs
 - d) Fiscal stimulus
46. **Which of the following terms refers to the sale of government bonds by the central bank to decrease the money supply?**
- a) Open market operations
 - b) Repo operations
 - c) Reverse repo
 - d) Discount lending
47. **The Reserve Bank of India manages the foreign exchange reserves of the country. This is done to:**
- a) Control inflation
 - b) Ensure economic growth
 - c) Stabilize the currency
 - d) Regulate government spending

48. **Which of the following defines 'liquid assets' in banking?**
- a) Deposits that are difficult to withdraw
 - b) Assets that can be quickly converted into cash
 - c) Fixed investments
 - d) Cash kept by customers in banks
49. **The Reserve Bank of India acts as the banker to the government in which of the following ways?**
- a) Managing government transactions
 - b) Issuing government bonds
 - c) Acting as an advisor to the government
 - d) All of the above
50. **What is the meaning of 'discounting of bills of exchange' by commercial banks?**
- a) Purchasing a bill of exchange at a discounted value before its maturity
 - b) Selling government bonds to raise funds
 - c) Lending to the government at market rates
 - d) Issuing bonds to customers at a lower rate