

BRAHMASTRA SERIES

Chapter : 8

MONEY

MARKET

1. Barter exchange refers to exchange of goods/services for goods/services. Which of the following is the limitation of Barter exchange ?
 - (a) Lack of double coincidence of wants
 - (b) Lack of store of value
 - (c) Lack of common measure of value
 - (d) All of the above

2. Which of the following is the primary function of money ?
 - (a) Medium of exchange
 - (b) standard of deferred payments
 - (c) store of value
 - (d) all of the above

3. Which function of money is also known by the name of “Unit of account”?
 - (a) Medium of exchange
 - (b) Standard of deferred payments
 - (c) Measure of value
 - (d) store of value

4. If there were no money, we would be reduced to a _____.
 - (a) Non – monetary economy
 - (b) Barter economy
 - (c) Monetary economy
 - (d) None of the above

5. Fiat money is materially _____ but has _____ simply because a nation collectively agreed to ascribe a value to it.
 - (a) Worthless, value
 - (b) Valuable, worthless
 - (c) Transparent, liquid
 - (d) liquid, exchangeability

6. Which of the following is not a part of general characteristics that money should possess in order to make it serve its function as money ?
 - (a) Generally acceptable & possessing uniformity
 - (b) Durable or long lasting
 - (c) Portable & effortlessly recognizable
 - (d) Easily counterfeitable

7. Any unit of money, whose face value and intrinsic are equal, is known as _____.

- (a) Full – bodied money
- (b) Representative full – bodied money
- (c) Credit money
- (d) All of the above

8. Which one of the following form of legal tender money can be paid in discharge of a debt up to a certain limit only ?

- (a) Coins
- (b) Paper notes
- (c) Cheques
- (d) bank draft

9. Choose the incorrect statement :

- (a) Anything that would act as a medium of exchange is money
- (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
- (c) Money is a totally liquid asset and provides us with means to access goods and services
- (d) Currency which represents money does not necessarily have intrinsic value

10. Money performs all of the three functions mentioned below, namely :

- (a) Medium of exchange, price control, store of value
- (b) Unit of account, store of value, provide yields
- (c) Medium of exchange, unit of account, store of value
- (d) Medium of exchange, unit of account, income distribution

11. Demand for money is :

- (a) Derived demand
- (b) Direct demand
- (c) real income demand
- (d) inverse demand

12. Higher the _____, higher would be _____ of holding cash and lower will be the _____.
- (a) Demand for money, opportunity cost, interest rate
 - (b) Price level, opportunity cost, interest rate.
 - (c) Real income, opportunity cost, demand for money
 - (d) Interest rate, opportunity cost, demand for money
13. The transactionary demand for money is directly proportional to and is a positive function of
- (a) level of price
 - (b) level of income
 - (c) level of demand
 - (d) level of interest rate
14. The money is demanded for its purchasing power. Therefore, the demand for money is in the nature of _____.
- (a) Purchasing power demand
 - (b) Real power demand
 - (c) Direct demand
 - (d) Derived demand
15. The demand for money is actually
- (a) Demand for liquidity
 - (b) Demand to store value
 - (c) both (a) and (b)
 - (d) none of the above
16. The decision about how much of one's given stock of wealth should be held in the form of money rather than as other assets (like bonds) is called as _____.
- (a) demand for money
 - (b) decision for money
 - (c) supply of money
 - (d) none of above
17. The individuals, households as well as firms hold money which gives little or no return. This is because _____.
- (a) money is liquid
 - (b) Money has demonstration effect
 - (c) money gives authority
 - (d) none of these

18. The quantity of nominal money or how much money people would like to hold in liquid form depends many factors. Which of the following is the variable on which this demand for money demands ?
- (a) Income
 - (b) General level of prices & rate of interest
 - (c) Real GDP and the degree of financial innovation
 - (d) All of the above
19. The quantity which people desire to hold is _____ proportional to the income.
- (a) Directly
 - (b) Inversely
 - (c) Regressive
 - (d) None of these
20. The demand for money depends upon prevailing price level. _____ the prices, _____ should be the holding of money.
- (a) Lower, higher
 - (b) Higher, lower
 - (c) Higher, Higher
 - (d) Lower, lower
21. Which of the following innovation, has reduced the need for holding liquid money ?
- (a) internet banking
 - (b) application based transfer
 - (c) automated teller machines
 - (d) all of the above
22. The rate of interest is crucial factor on which demand for money depends on. The demand for money is _____ proportional to the interest rate.
- (a) Directly
 - (b) Inversely
 - (c) progressively
 - (d) none of the above
23. Which one of the following is not a theory of demand for money ?
- (a) The quantity theory of money
 - (b) Hicksian theory of demand
 - (c) Cash balance approach
 - (d) Keynesian theory of demand for money

24. The quantity theory of money holds that :

- (a) Changes in the general level of commodity prices are caused by changes in the quantity of money
- (b) There is strong relationship between money and price level and the quantity of money is the main determinant of the price
- (c) Changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
- (d) All of the above

25. Which theory was propounded in the book “The purchasing power of money” ?

- (a) Quantity theory of money
- (b) Cash balance approach
- (c) Keynesian theory of demand for money
- (d) None of these

26. As regards fisher’s quantity of money, which of the following is incorrect?

- (a) There is direct relationship between money supply and inflation
- (b) There is indirect relationship between money supply and value of money
- (c) Price is a passive factor
- (d) The economy is not at full employment

27. Both the versions of the quantity theory of money demonstrate that there is a _____ relationship between money and price level and the quantity of money is the _____ determinant of the price level or value of money.

- (a) Weak, main
- (b) Strong, main
- (c) weak, very passive
- (d) strong, very passive

28. Which one of the following is the criticism of quantity theory of money ?
- (a) Velocity of money (V) and total number of transaction (T) are constant
 - (b) There is full employment in economy
 - (c) Money is only used as medium of exchange
 - (d) All of the above
29. Fisher's version is formally stated as $MV = PT$. in this equation of exchange.
- (a) M and V are constant
 - (b) P and T are constant
 - (c) M and P are constant
 - (d) V and T are constant
30. Which are of the following is the expanded form of fisher's equation of exchange ?
- (a) $MV = PT$
 - (b) $MV + M'V' = P'T'$
 - (c) $MV = PT + PT$
 - (d) $MV + M'V' = PT + P'T'$
31. As per fisher's expanded quantity theory of money, the total value of transactions made is equal to _____ and the value of money flow is equal to _____.
- (a) $MV ; PT$
 - (b) $PT ; MV$
 - (c) $PT ; MV + M'V'$
 - (d) $MV + M',V' ; PT$
32. The Cambridge approach to quantity theory is also known as :
- (a) Cash balance approach
 - (b) Fisher's theory of money
 - (c) Classical approach
 - (d) Keynesian approach

33. Fisher's approach and the Cambridge approach to demand for money consider :

- (a) Money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
- (b) Money as means of exchange and therefore demand for money is termed as for liquidity preference
- (c) Money as a means of transaction and therefore, demand for money is only transaction demand for money
- (d) None of the above

34. The Cambridge equation is :

$$M^d = K.P.Y.$$

In above equation, _____ is exogenous.

- (a) M^d
- (b) K
- (c) P
- (d) Y

35. The Cambridge equation focuses on _____ instead of _____.

- (a) Money demand ; money supply
- (b) Money supply | money demand
- (c) Money demand ; money movement
- (d) Money supply ; money movement

36. The cash balance approach was put forward by Cambridge economists.

The economists associated with this approach are :

- (i) Alfred Marshall
 - (ii) A.C. Pigou
 - (iii) D. H. Robertson
 - (iv) John Maynard Keynes
- (a) (i) only
 - (b) (i) and (ii)
 - (c) (i), (ii) and (iii)
 - (d) (i), (ii), (iii) and (iv)

37. The Cambridge money demand function is stated as follows :

$$M_d = KPY$$

In this equation, PY stands for :

- (a) National income
- (b) Real national income
- (c) Nominal income
- (d) Real income

38. In Cambridge money demand function, _____ is a parameter reflecting the proportion of national income (PY) that people want to hold as cash balance :

- (a) M_d
- (b) K
- (c) P
- (d) Y

39. Real money is :

- (a) Nominal money adjusted to the price level
- (b) Real national income
- (c) Money demanded at given rate of interest
- (d) Nominal GNP divided by price level

40. With reference to Cambridge theory, the product of the price level (P) and the real income (Y) is known as _____.

- (a) Nominal income
- (b) national income
- (c) Real income
- (d) equilibrium income

41. The Keynesian theory of demand for money is also called as :

- (a) Demand preference theory
- (b) Liquidity preference theory
- (c) Preference demand theory
- (d) Preference liquidity theory

42. The people hold their resources in liquid form when they can get interest by lending money or buying bonds or stocks. According to Keynes, by which motive the desire to hold money arises ?
- (a) transaction motive (b) precautionary motive
(c) speculative motive (d) all of the above
43. People's desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure reflects ____
- (a) transaction motive (b) speculative motive
(c) precautionary motive (d) personal and business exchange
44. The receipt of money and payments do not coincide. So, a certain amount of cash is kept in hand to make current payments. Which motive is this, according to the Keynesian theory ?
- (a) transaction motive (b) precautionary motive
(c) speculative motive (d) unforeseen motive
45. According to John Maynard Keynes, the transaction demand for money depends only on the _____ and not influenced by the _____.
- (a) Rate of interest, level of income
(b) Level of income, rate of interest
(c) Psychology of individual, real income
(d) Psychological of individual, rate of interest
46. As per liquidity preference theory, the transaction demand for money is a _____ proportional and _____ function of the level of income.
- (a) Direct, positive (b) indirect, positive
(c) direct, negative (d) indirect, negative
47. Under Keynesian theory, the aggregate transaction demand for money is a function of _____.
- (a) Specific income (b) individual income
(c) notional income (d) national income

48. The precautionary money balances people want to hold _____.
- (a) As income elastic and not very sensitive to rate of interest
 - (b) As income inelastic and very sensitive to rate of interest
 - (c) Are determined primarily by the level of transactions they expect to make in the future.
 - (d) Are determined primarily by the current level of transactions
49. Under _____ motive, people hold money in each form or liquid form for unforeseen contingencies such as sickness, accident, danger of unemployment and other uncertain perils.
- (a) Transaction
 - (b) Speculative
 - (c) Precautionary
 - (d) Non – contingency
50. Prof. J.M. Keynes regarded the precautionary balances as income _____ and by itself not very sensitive to _____.
- (a) Elastic, rate of interest
 - (b) Inelastic, rate of interest
 - (c) Elastic, level of income
 - (d) Inelastic, level of income
51. The amount of money demanded under the precautionary motive depends on _____.
- (a) Size of income
 - (b) Prevailing economic/political conditions
 - (c) Personal characteristics of individual
 - (d) All of the above
52. Speculative demand for money _____.
- (a) Is not determined by interest rates
 - (b) Is positively related to interest rates
 - (c) Is negatively related to interest rates
 - (d) Is determined by general price level

53. Which one the following motive reflects people's, desire to hold cash in order to be equipped to exploit any attractive investment opportunity requiring cash expenditure ?
- (a) Transaction motive (b) Precautionary motive
(c) Speculative motive (d) non – speculative motive
54. Under liquidity preference theory, Keynes assumed that the expected return on money is _____ while the expected return on bonds while the expected return on bonds are _____ and _____.
- (a) Zero, interest payment, expected rate of capital gain
(b) One, interest payment, expected rate of capital gain
(c) Zero, fixed interest, fixed loss
(d) None of the above
55. With reference to speculative demand for money, the market value of bonds and the market rate of interest are _____ related.
- (a) Positively (b) Inversely
(c) Directly (d) Not
56. According to Keynes , if the current interest rate is high :
- (a) People will demand more money because the capital gain on bonds would be less than return on money
(b) People will expect the interest rate to rise and bond price to fall in the future.
(c) People will expect the interest rate to fall and bond price to rise in the future.
(d) Either (a) or (b) will happen
57. Under liquidity preference theory, if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist _____.
- (a) Only government bonds
(b) Wholly of cash
(c) Both cash and bonds equally
(d) Either cash or bonds

58. _____ is an adverse economic situation that can occur when consumers and investors hoard cash rather than spending or investing it even when interest rates are low.
- (a) Liquidity trap (b) Monetary trap
(c) Precautionary trap (d) Stimulus trap
59. There is a liquidity trap at short term _____ per cent interest rate.
- (a) 10 (b) 7.5 (c) 5 (d) zero
60. What does the concept of liquidity trap mean ?
- (a) Liquidity trap is a situation the desire to hold bonds is very low and approaches zero ; and the demand to hold money in liquid form as an alternative approaches infinity
- (b) Even if the public fear adverse events (deflation, war) , then they prepare to hold only bonds at a give rate of interest.
- (c) The speculative money demand curve becomes parallel to the Y axis
- (d) None
61. Which of the following statement is correct, in the situation of liquidity trap ?
- (a) Investors would maintain cash savings rather than hold bonds
- (b) The speculative demand becomes perfectly elastic with respect to interest rate
- (c) The speculative money demand curve becomes parallel to the X – axis
- (d) All of the above
62. In the situation of liquidity trap, the monetary authority is _____ to stimulate the economy with monetary policy.
- (a) Unable (b) Able
(c) Perfectly able (d) very effective

63. The inventory theoretic approach to the transaction demand for money

- _____.
- (a) explains the negatively relationship between money demand and the interest rate
 - (b) explains the positive relationship between money demand and the interest rate
 - (c) explains the positive relationship between money demand and general price level
 - (d) explains the nature of expectations of people with respect to interest rates and bond prices

64. In which approach, the money or real cash balance was essentially viewed as an inventory held for transaction purposes.

- (a) Inventory explicit approach
- (b) Inventory implicit approach
- (c) Inventory theoretic approach
- (d) Inventory regressive approach

65. Who has developed deterministic theory of transaction demand for money known as inventory theoretic approach ?

- (a) Baumol and Tobin
- (b) Baumol and fisher
- (c) Tobin and fisher
- (d) Baumol and Marshall

66. According to baumol which of the following formula can be used to calculate average amount of cash withdrawal which minimizes cost ?

- (a) $C = \sqrt{2byr}$
- (b) $C = \sqrt{\frac{2by}{r}}$
- (c) $C = \sqrt{\frac{byr}{2}}$
- (d) $C = \sqrt{\frac{2br}{y}}$

67. In accordance with the inventory theoretic approach, an individual combines his asset portfolio of _____ and _____ in such proportions that his _____ of holding the assets is minimized.

- (a) Cash ; bonds ; overall cost
- (b) Shares ; bonds ; overall cost
- (c) Cash ; bond ; bond cost
- (d) Cash ; bond ; cash cost

68. The nominal demand for money rises if :

- (a) The opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – decline and vice versa
- (b) The opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – rises and vice versa
- (c) The opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – respectively remain constant
- (d) (b) and (c) above

69. _____ considered demand for money is as an application of a more general theory of demand for capital assets.

- (a) Baumol
- (b) James Tobin
- (c) J M Keynes
- (d) Milton Friedman

70. As per Milton Friedman's restatement of the quantity theory, the nominal demand for money is a function of _____, which is represented by permanent income divided by the _____, rates, defined as the average return on the _____ asset classes in the monetarist theory world.

- (a) total wealth, discount, five
- (b) total wealth, interest, five
- (c) permanent wealth, interest, six
- (d) none of these

71. As per Friedman's theory, the nominal demand for money is influenced by inflation, a positive inflation rate _____ the real value of money balances, there by _____ the opportunity costs of money holdings.
- (a) Increases, reduces (b) Reduces , increasing
(c) stimulates, reduces (d) none of these
72. The present expected value of all future income is Friedman's measure of wealth. Friedman's regarded this as _____.
- (a) Permanent income (b) Current income
(c) Temporary income (d) Flexible income
73. Under Friedman's quantity theory, the nominal demand for money is _____ related to the price level.
- (a) Negatively (b) Positively
(c) Regressively (d) Not
74. According to James Tobin's theory, an individual's behavior shows risk aversion, which means they prefer _____ risk to _____ risk at a given rate of return.
- (a) Less, more (b) More, less
(c) Less, positive (d) more, negative
75. Tobin's theory holds that people prefer _____ portfolio money, bonds and shares, with each person opting, for a little different balance between risk and return.
- (a) mixed (b) diversified
(c) mixed or diversified (d) non – diversified
76. In Tobin's portfolio approach, the demand function for money as an asset slopes downwards, where horizontal axis shows _____ and vertical axis shows _____.
- (a) Demand for money , rate of interest
(b) Rate of interest, demand for money
(c) Supply for money, rate of interest
(d) Demand for money, supply for money

83. Which of the following is the feature of money supply ?

- (a) Money includes money held by public only
- (b) Money does not include money creating sector (suppliers of money)
- (c) Money is a stock concept, as it is concerned with a particular point of time
- (d) All of the above

84. Choose the correct statement from the following :

- (a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
- (b) Money is deemed as something held by the public and therefore inter – bank deposits are included in money supply.
- (c) Since inter – bank deposits are not held by the public, therefore inter – bank deposits are excluded from the measure of money supply
- (d) Both (a) and (c) above

85. Which one of the following is not the producers of money ?

- (a) Government
- (b) Banking system
- (c) household & firms
- (d) all of the above

86. In the definition of money supply, the term public includes economic unit :

- (a) Households
- (b) Firms
- (c) Institution
- (d) All of the above

87. While discussing the definition of “Supply of money” and the standard measures of money, _____ is/are not included.

- (a) Inter bank deposits
- (b) Money held by the government
- (c) Banking system
- (d) All of the above

88. In the definition money supply, the word “Public” includes :

- (a) All local authorities
- (b) Non – banking financial institutions
- (c) Foreign central banks
- (d) All of the above

89. The central banks all over the world adopt monetary policy which depends to a large extent on the controllability of the :
- (a) Monetary base
 - (b) Money supply
 - (c) Monetary base & the money supply
 - (d) Money supply & money demand
90. The empirical analysis of the _____ facilities analysis of monetary developments in order to provide a deeper understanding of the causes of money growth.
- (a) Money supply
 - (b) Money demand
 - (c) Money supplied by households
 - (d) Money demanded by governments
91. The supply of money in the economy depends on the decision of :
- (a) Commercial banks
 - (b) Central banks
 - (c) Ministry of finance
 - (d) Central government
92. Paper currency is a :
- (a) Representative money
 - (b) Full – bodies money
 - (c) Metallic money
 - (d) None of the above
93. The primary source of money supply in all countries is :
- (a) The reserve bank of India
 - (b) The central bank of the country
 - (c) The bank of England
 - (d) The federal reserve

94. The supply of money in an economy depends on.

- (a) The decision of the central bank based on the authority conferred on it.
- (b) The decision of the central bank and the supply responses of the commercial banking system
- (c) The decision of the central bank in respect of high powered money
- (d) Both (a) and (c) above

95. Under the 'minimum reserve system' the central bank is _____.

- (a) Empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
- (b) Empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities
- (c) Empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities.
- (d) Empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of Rs.350 Cr.

96. The money is a liability of the _____ and an asset of the _____.

- (a) Issuing central bank, holding public
- (b) Public, central bank
- (c) Issuing central bank, central government
- (d) Central government, issuing central bank

97. Which of the following is a fiat money ?

- (a) Gold coins
- (b) Silver coins
- (c) Currency notes
- (d) Gold coins, coins as well as currency notes

98. The currency issued by the central bank is "FIAT MONEY" and is backed by supporting _____ and its value is guaranteed by the _____.

- (a) Currency, central bank
- (b) currency, government
- (c) Reserves, Government
- (d) reserves, central bank

99. Banks create money supply in the process of borrowing and lending transactions with the public. Money so created by the commercial banks is called :

- (a) Credit money
- (b) Artificial money
- (c) Debit money
- (d) None of these

100. Which of the following is a type of money ?

- (a) Metallic currency
- (b) Paper currency
- (c) Digital currency
- (d) All of the above

101. With the advent of cutting edge technologies and advancement in technology has made it possible for the development of new form of money viz. CBDC. What is the full form of CBDC ?

- (a) Central Bank Digital Certificate
- (b) Central Bank Dynamic Certificate
- (c) Central Bank Digital Currency
- (d) Central Bank Dynamic Currency

102. At present, which of the following statement is true about the crypto currencies ?

- (a) These face significant legislative uncertainties
- (b) These are not legally recognized in India as currency
- (c) There are not categorized as money
- (d) All of the above

103. Banks in the country are required to maintain deposits with the central bank _____.

- (a) To provide the necessary reserves for the functioning of the central bank
- (b) To meet the demand for money by the banking system
- (c) To meet the central bank prescribed reserve requirements and to meet settlement obligations
- (d) To meet the money needs for the day to day working of the commercial banks

104. "Money" consists of currency and _____, while "High powered money". Consists of currency and _____.
- (a) Demand deposits, cash reserves with banks
 - (b) Cash reserves with banks, demand deposits
 - (c) Public money, paper money
 - (d) Paper money, public money
105. Till 1967 – 68, the RBI used to publish _____ measure of money supply.
- (a) M_1
 - (b) M_1 and M_2
 - (c) M_1 , M_2 and M_3
 - (d) M_1 , M_2 , M_3 and M_4
106. If velocity = 20, average price = 120 and volume of transaction $T = 150$ Cr then money supply will be
- (a) 2500 Cr
 - (b) 25 Cr
 - (c) 900 Cr
 - (d) 1000 Cr
107. In India, who releases data on money supply ?
- (a) RBI
 - (b) Central government
 - (c) ministry of finance
 - (d) commercial banks
108. M_1 and M_2 are generally known as _____ supply concepts, whereas, M_3 and M_4 are known as _____ supply concepts.
- (a) Narrow money, Broad money
 - (b) Broad money, Narrow money
 - (c) Least liquid money, narrow money
 - (d) Broad money, most liquid money
109. Calculate broad money M_3 ?
- (a) Currency with public + demand deposits with banks
 - (b) Currency with public + demand deposits with banks = net time deposit with the banking system
 - (c) Currency with public + savings with government banks
 - (d) Currency with public + demand deposits with banks + other deposits with RBI

110. The four measures of money supply represent different degrees of liquidity. In this regard, _____ is the most liquid and _____ is least liquid.

- (a) M_4 , M_1 (b) M_1 , M_4 (c) M_2 , M_3 (d) M_3 , M_2

111. Reserve money is also known as :

- (a) Central banks money
(b) Base money
(c) High powered money
(d) All of the above

112. Reserve money is composed of :

- (a) Currency in circulation + demand deposits of banks (Current and saving accounts) + Other deposits with the RBI
(b) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
(c) Currency in circulation + demand deposits of banks + Other deposits with the RBI
(d) Currency in circulation + demand and time deposits of banks + Other deposits with the RBI

113. M_1 is the sum of :

- (a) Currency and coins with the people + demand deposits of banks (Current and saving accounts) + other deposits of the RBI
(b) Currency and coins with the people + demand and time deposits of banks (Current and saving accounts) + other deposits of the RBI
(c) Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
(d) None of the above

114. The empirical definition of measure M_3 is _____.

- (a) $M_3 = M_1 + M_2$
(b) $M_3 = M_1 +$ Saving deposits with post office saving banks
(c) $M_3 = M_1 +$ time deposits with the banking system
(d) $M_3 = M_1 +$ Saving deposit with post office saving banks

Consider the following data and answer the following questions 115 – 117

Currency with public	Rs.45,000 Cr.
Demand deposit with banking system	Rs.1,00,000 Cr.
Time deposits with banking system	Rs.1,10,000 Cr.
Other deposit with RBI	Rs.1,40,000 Cr.
Saving deposits of post office saving banks	Rs.30,000 Cr.

115. What is the amount of narrow money (M_1) ?

- (a) Rs.2,85,000 Cr. (b) Rs.3,15,000 Cr.
(c) Rs.3,95,000 Cr. (d) None of the above

116. The calculated value of M_2 is _____

- (a) Rs.2,85,000 Cr. (b) Rs.3,95,000 Cr.
(c) Rs.3,15,000 Cr. (d) None of the above

117. The value of M_3 will be _____.

- (a) Rs.2,85,000 Cr. (b) Rs.3,95,000 Cr.
(c) Rs.3,15,000 Cr. (d) None of the above

118. Consider the following data (Rs. Cr.) ?

Notes in circulation	26,09,005
Circulation of Rupee coin	40,715
Circulation of Small coins	1,080
Cash on hand and bank	99,200

What is the currency with the public ?

- (a) Rs.26,09,005 Cr. (b) Rs.26,49,720 Cr.
(c) Rs.26,50,800 Cr. (d) Rs.25,51,600 Cr.

119. Calculate currency with public :

Particulars	(Rs.) in Crores
Notes with public in circulation	23,26,500
Currency of small coins in circulation	500
Currency of rupee coins in circulation	34,500
Cash in hand with banks	80,615

- (a) 22,80,885 Cr. (b) 24,42,115 Cr.
(c) 22,45,885 Cr. (d) 23,62,000 Cr.

120. Consider the following data :

M_1 Rs.42,90,550 Cr.

M_2 Rs.44,42,695 Cr.

Calculate the value of post office saving bank deposits.

- (a) Rs.87,33,245 (b) Rs.1,52,145
(c) Rs.3,04,290 (d) None of these

Read the following data and answer the questions 121 to 123

Mr.X has calculated following four alternative measures of money supply :

M_1	Rs.4,85,000 Cr.
M_2	Rs.5,50,000 Cr.
M_3	Rs.5,90,000 Cr.
M_4	Rs.6,24,000 Cr.

121. What is the amount of “Time deposits with the banking system” ?

- (a) Rs. 74,000 Cr. (b) Rs.65,000 Cr.
(c) Rs.1,05,000 Cr. (d) Rs.34,000 Cr.

122. What is the amount of “Saving deposits with post office saving bank”?

- (a) Rs.74,000 Cr. (b) Rs.65,000 Cr.
(c) Rs.1,05,000 Cr. (d) Rs.34,000 Cr.

123. The total deposits with the post office saving organization (Excluding national savings certificates) is _____.

- (a) Rs.74,000 Cr. (b) Rs.65,000 Cr.
(c) Rs.1,05,000 Cr. (d) Rs.34,000 Cr.

124. Find M_2 , from the following information :

M_4	Rs.4,41,260 Cr.
Saving deposits with post office saving banks	Rs.41,200 Cr.
Total deposits with the post office saving organization (excluding national savings certificate)	Rs.31,245 Cr.
Time deposits with the banking system	Rs.65,315 Cr.

- (a) Rs.4,10,015 Cr. (b) Rs.3,44,700 Cr.
(c) Rs.3,85,900 Cr. (d) Cannot be determined

125. On the recommendation of the second working group on money supply, from April 1977, the RBI has been publishing data on which of the following alternative measures of money supply ?

- (a) M_1 only (b) M_1 and M_2
(c) M_1 , M_2 and M_3 (d) M_1 , M_2 , M_3 and M_4

Read the following data, and answer the questions (126 to 128)

Particulars	Rs. in Cr.
Notes in circulation	24,20,964
Circulation of Rupee coin	25,572
Circulation of small coins	743
Post office saving bank deposits	1,41,786
Cash on hand with banks	97,563
Deposit money of the public	17,76,199
Demand deposits with banks	17,37,692
Other deposits with RBI	38,507
Total post office deposits	14,896
Time deposit with banks	1,78,694

126. Calculate M_1

- (a) Rs.43,04,609 (b) Rs.41,25,915
(c) Rs.42,07,046 (d) Rs.42,67,701

127. Calculate M_2

- (a) Rs.43,04,609 (b) Rs.41,25,915
(c) Rs.42,07,046 (d) Rs.42,67,701

128. Calculate M_3

- (a) Rs.43,04,609 (b) Rs.41,25,915
(c) Rs.42,07,046 (d) Rs.42,67,701

129. The money multiplier approach holds that total supply of national money in the economy is determined by the _____ behavior of the _____.

- (a) Single ; central bank
(b) Joint ; central bank and commercial bank
(c) Joint ; central bank and public
(d) Joint ; central bank , commercial banks and the public

130. Money multiplier means

- (a) It decreases the total money supply for a given monetary base
(b) It dictates interest rates set by RBI
(c) The ratio of money supply to monetary base
(d) It controls amount of gold reserves held by bank

131. The ratio that relates the change in the money supply to a given change in the monetary base is called the :

- (a) required reserve ratio (b) Money multiplier
(c) deposit ratio (d) discount rate

132. The money multiplier will be large :

- (a) For higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
- (b) For constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
- (c) For lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
- (d) None of the above

133. The money multiplier and the money supply are :

- (a) Positively related to the excess reserves ratio ?
- (b) Negatively related to the excess reserves ratio ?
- (c) Not related to the excess reserves ratio ?
- (d) Proportional to the excess reserves ratio ?

134. The currency ratio represents :

- (a) The behavior of central bank in the issue of currency
- (b) The behavior of central bank in respect cash reserve ratio
- (c) The behavior of the public
- (d) The behavior of commercial banks in the country

135. The size of the money multiplier is determined by :

- (a) The currency ratio (c) of the public
- (b) The required reserve ratio (r) at the central bank, and
- (c) The excess reserve ratio (e) of commercial banks
- (d) All of the above

136. The required reserved ratio is 10% for every Rs.2,00,000 deposited in the banking system. What will be the credit multiplier and credit creation ?

- (a) 10, Rs.20,00,000
- (b) 10, Rs.20,000
- (c) 8, Rs.20,00,000
- (d) 8, Rs.20,000

137. For initial deposit of Rs. 5,00,000 the credit creation is calculated at Rs.40,00,000. What is RRR (Required Reserved Ratio) ?
(a) 8 (b) .08 (c) 12.5% (d) Cannot be calculated

138. When there are excess reserves the money multiplier (m) is expressed as _____.
(a) $m = \frac{1+c}{r+e+c}$ (b) $m = \frac{1+r}{r+e+c}$
(c) $m = \frac{1+e}{r+e+c}$ (d) $m = \frac{c}{r+e+c}$

139. Which formula is used to find out money supply (m) where :

r = required reserve ratio

c = currency – deposit ratio (C/D)

e = ratio of excess reserves to deposits

H = stock of high powered money

(a) $M = \frac{1+c}{r+e+c} + H$ (b) $M = \frac{1+C}{r+e+c} \times H$
(c) $M = \frac{1+H}{r+e+c} + C$ (d) $M = \frac{1+H}{r+e+c} \times C$

140. If M is the money supply, m is the money multiplier and MB is the monetary base or high – powered money, then which of the following equation is correct ?

(a) $MB = M \times m$ (b) $m = MB \times M$
(c) $M = MB \times m$ (d) $M = MB \div m$

141. For a given level of the monetary base, an increase in the required reserve ratio will denote :

(a) A decrease in the money supply
(b) An increase in the money supply
(c) An increase in demand deposits
(d) Nothing precise can be said

142. For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _____ and the money supply to _____.

- (a) Decrease ; increase (b) increase ; decrease
(c) decrease ; decrease (d) increase ; increase

143. _____ tells us how much new money will be created by the banking system for a given increase in the high powered money.

- (a) The currency ratio (b) The excess reserve ratio (e)
(c) The credit multiplier (d) The currency ratio (c)

144. Consider the following data :

Required reserve ratio	10 per cent
Currency in circulation	Rs.400 billion
Demand deposits	Rs.1000 billion
Excess reserves	Rs.1 billion

The value of money multiplier will be _____.

- (a) 1.74 (b) 2.74 (c) 1.79 (d) 2.79

145. The _____ the reserve ratio, the _____ of each deposit bank loan out and the _____ the money multiplier.

- (a) Higher, less, smaller (b) higher, high element, smaller
(c) smaller, less, smaller (d) none of these

146. Under the fractional reserve system :

- (a) The money supply is an increasing function of reserve money (or high powered money) and the money multiplier
(b) The money supply is an decreasing function of reserve money (or high powered money) and the money multiplier
(c) The money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier
(d) None of the above as the determinants of money supply are different

147. If commercial banks reduce their holdings of excess reserves :
- (a) The monetary base increases
 - (b) The monetary base falls
 - (c) The monetary supply increases
 - (d) The money supply falls
148. The money multiplier is a function of the current ratio which depends on the :
- (a) Behaviour of the public
 - (b) Excess reserve ratio of the banks
 - (c) Required reserve ratio set by the central bank
 - (d) All of the above
149. Excess reserves ratio (e) is _____ related to the market interest ratio (i).
- (a) Positively (b) Negatively (c) Uniformly (d) Not
150. As a rule, an increase in monetary base that goes into _____ is not multiplied, whereas an increase in monetary based that goes into _____ is multiplied.
- (a) Supporting deposits, currency
 - (b) Currency, supporting deposits
 - (c) High powered currency, currency
 - (d) Currency, high powered currency
151. If some portion of the increase in high – powered money finds its way into _____, this portion does not undergo multiple deposit expansion.
- (a) Currency (b) Supporting deposits
 - (c) Both (a) and (b) (d) Neither (a) nor (b)

152. The size of the money multiplier is reduced when funds are held as _____ rather than as _____.
- (a) Term deposits , cash (b) Cash, term deposits
(c) demand deposits, cash (d) cash, demand deposits
153. The money multiplier approach to money supply was propounded by _____.
- (a) Milton Friedman
(b) Milton Friedman and Anna Schwartz
(c) Milton Friedman and Irvin Fisher
(d) Milton Friedman and Marshall
154. The money multiplier approach to money supply considers three factors as immediate determinants of money supply. Which one of the following is not included in these factors ?
- (a) Stock of high powered money (H)
(b) The ratio of reserves to deposits or reserve – ratio (r)
(c) The ratio of currency to deposits or currency – deposit ratio (c)
(d) The ratio of high – powered money to deposits (h)
155. Whose behavior among the following, has been considered under money multiplier approach ?
- (a) Central bank (b) Commercial banks
(c) General public (d) All of the above
156. Under money multiplier approach, the behavior of the central bank which controls the issue of currency is reflected in the _____.
- (a) Supply of the nominal high – powered money
(b) Total amount of nominal demand deposits
(c) Degree of adoption of banking habits by the people
(d) All of the above

157. If the behavior of the public and the commercial banks remain unchanged over time, the total supply of nominal money in the economy will vary _____ with the supply of nominal high – powered money issued by the _____.

- (a) Directly, central banks
- (b) Negatively, central bank
- (c) Directly, central government
- (d) Negatively, central government

158. The money multiplier and the money supply are _____ related to the ratio of currency to deposits (c) i.e. C/D.

- (a) Negatively
- (b) Positively
- (c) Not
- (d) Progressively

159. The behavior of commercial banks is important under money multiplier approach to supply of money. By creating credit, the commercial banks determine the total amount of _____.

- (a) Nominal high – powered money
- (b) Nominal demand deposits
- (c) National high powered money
- (d) National demand deposits

160. Which of the following reflects the behavior of commercial banks in the economy regarding money multiplier approach to supply of money ?

- (a) Ratio of cash reserves to deposits
- (b) Ratio of currency to deposits
- (c) Ratio of cash reserves to currency
- (d) Ratio of high – powered money to currency

161. Considering all other variables remain the same, if ratio of cash reserves to deposits (reserve ratio) increases, then _____ will decrease.

- (a) deposits
- (b) money supply
- (c) reserves
- (d) high – powered money

162. When reserve ratio (r) is 8% the money multiplier is calculated at 2.58. if the reserve ratio is increased to 12%, the value of money multiplier will be _____.
- (a) less than 2.58 (b) more than 2.58
(c) 2.58 (d) cannot be decided
163. The value of money multiplier is zero when :
- (a) Interest rates are too low
(b) Banks prefer to hold the newly injected reserves as excess reasons with no risk attached to it
(c) Both (a) and (b)
(d) Money multiplier can never be zero
164. As a part of monetary policy, an open market purchase by central bank will _____ the reserves and thereby _____ the money supply.
- (a) reduce, reduce (b) increase, increase
(c) reduce, increase (d) increase, reduce
165. Open market purchases of government securities by RBI will
- (a) Reduce the money supply
(b) Reduce the reserve
(c) Increase reserves
(d) Reduce the reserves and there by reduce the money supply
166. The credit creation process by the banking system in the country will create money to the tune of Δ money supply = $\frac{1}{R} \times \Delta$ reserves.
- (a) banks do not hold excess reserves
(b) people do not hold more currency than before
(c) there is demand for loans from businesses
(d) all of the above

167. If the central bank of a country wants to stimulate economic activity it does so by infusing liquidity into the system. The high powered money (monetary base) is injected into the system when _____
- (a) Government securities are purchased
 - (b) Government securities are sold
 - (c) Any of (a) and (b)
 - (d) Both (a) and (b)
168. Whenever the central and the state government's cash balance fall short of the minimum requirement, they are eligible to avail of a facility. What is the name of that facility ?
- (a) Ways & means advances (WMA)
 - (b) Overdraft facility (OD)
 - (c) Both (a) & (b)
 - (d) None of the above
169. When the reserve bank of India lends to the governments under WMA/OD, it can potentially lead to an _____ in money supply through the money multiplier process.
- (a) Increase
 - (b) Decrease
 - (c) Substantial Decrease
 - (d) No effect
170. Identify the correct statement ?
- (a) There is no difference between the type of money created by commercial bank and that which are issued by the central bank
 - (b) Money creation is same as is the wealth creation
 - (c) The deposit multiplier and the money multiplier are identical
 - (d) In actual practice, all borrowers spend every rupee they have borrowed
171. If required reserve ratio is 20%, then what will be credit multiplier ?
- (a) 0.2
 - (b) 0.8
 - (c) 1.2
 - (d) 5

172. What is the formula used to calculate credit multiplier ?

- (a) $100 - \text{required reserve ratio}$
- (b) $100 + \text{required reserve ratio}$
- (c) $100 \times \text{required reserve ratio}$
- (d) $\frac{1}{\text{Required reserve ratio}}$

173. The credit multiplier is also referred to as the _____

- (a) Deposit multiplier
- (b) Deposit expansion multiplier
- (c) Both (a) & (b)
- (d) None of the above

174. Which describes the amount of additional money created by commercial bank through the process of lending the available money it has in excess of the central banks reserve requirement ?

- (a) Credit multiplier
- (b) Deposit multiplier
- (c) Deposit expansion
- (d) all of the above

175. What will be the total deposit created if initial deposit is of Rs.800 Cr. And required reserve ratio is 10% ?

- (a) Rs.80 Cr.
- (b) Rs.800 Cr.
- (c) Rs.8000 Cr.
- (d) None of these

176. The total deposits created by the commercial banks is Rs.16,800 Cr. And the required reserve ratio is 12.5%. calculate the amount of initial deposits.

- (a) Rs.16,800
- (b) Rs.2,100
- (c) Rs.18,900
- (d) None of these

177. Initial deposit of Rs.1,521 Cr. Lead to creation of total deposits of Rs.12,168 Cr. By the commercial banks. What is required reserve ratio ?

- (a) 15%
- (b) 12.5%
- (c) 10%
- (d) 7.5%

178. Monetary policy refers to the use of monetary policy instruments which are at the disposal of the central bank _____.
- (a) To regulate the availability, cost and use of money and credit
 - (b) To achieve price stability
 - (c) To promote economic growth/optimum levels of output and employment, balance of payment equilibrium, etc.
 - (d) All of the above
179. Which of the following is the function of monetary policy ?
- (a) Regulate the exchange rate and keep it stable
 - (b) Regulate the movement of credit to the corporate sector
 - (c) Regulate the level of production and prices
 - (d) Regulate the availability, cost and use of money and credit
180. Which of the following is a basic component of monetary policy framework ?
- (a) The objectives of monetary policy
 - (b) The analytics of monetary policy which focus on the transaction mechanism
 - (c) The operating procedure which focus on the operating targets and instruments
 - (d) All of the above are basic components
181. The main objective of monetary policy in India is _____ :
- (a) Reduce food shortages to achieve stability
 - (b) Economic growth with price stability
 - (c) Overall monetary stability in the banking system
 - (d) Reduction of poverty and unemployment
182. Expansionary monetary policy of government directs towards _____.
- (a) Reduction in inflation
 - (b) Rising of aggregate demand
 - (c) Decline in employment rate
 - (d) increase in interest rates

188. A contractionary monetary policy – induced increase in interest rates.
- (a) Increases the cost of capital and the real cost of borrowing for firms
 - (b) Increases the cost of capital and the real cost of borrowing for firms and households
 - (c) Decreases the cost of capital and the real cost of borrowing for firms
 - (d) Has no interest rate effect on firms and households
189. During deflation :
- (a) The RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
 - (b) The RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
 - (c) The RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
 - (d) The RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy
190. The analytics of monetary policy focus on the transmission mechanisms. Which of the following is included in such mechanism ?
- (a) The interest rate channel
 - (b) The exchange rate channel
 - (c) The quantum channel and the asset price channel
 - (d) All of the above
191. Which of the following statement is correct ?
- (a) The governor of the RBI in consultation with the ministry of finance decides the policy rate and implements the same
 - (b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself
 - (c) When repo rates increase, it means that banks can now borrow money through Open Market Operations (OMO)
 - (d) None of the above

192. Which of the following statements is incorrect ?

- (a) Quantitative instruments are general in nature
- (b) Quantitative instruments affects all the sectors making use of bank credit
- (c) Quantitative controls are designed to regulate the direction of credit
- (d) Quantitative controls are also known as traditional methods of control

193. As a part of credit control instruments of RBI, which of the following is not a part of quantitative method ?

- (a) Cash Reserve Ratio (CRR)
- (b) Statutory Liquidity Ratio (SLR)
- (c) Open Market Operations (OMO)
- (d) Margin requirements

194. As a part of open market operations, sale of securities by the central bank _____ the money supply in the economy.

- (a) decreases
- (b) Increases
- (c) brings no change in
- (d) either (a) or (b)

195. _____ refers to the minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank.

- (a) Statutory liquidity ratio
- (b) Cash reserve ratio
- (c) Bank rate
- (d) Repo rate

196. In order to control money supply, the RBI buys and sells government securities in the open market. These operations conducted by the central bank are referred to as :

- (a) Open monetary operations
- (b) Open money operations
- (c) Open market operations
- (d) Open marginal operations

197. The commercial banks are required to maintain with themselves, a minimum percentage of Net demand & time liabilities, in the form of designated liquid assets. This ratio is called as :
- (a) Statutory Liquidity ratio
 - (b) Cash Reserve ratio
 - (c) Bank rate
 - (d) Repo rate
198. Which one of the following statement is incorrect about qualitative method of credit control instruments of RBI ?
- (a) These include margin requirements, moral suasion, selective credit controls etc.
 - (b) These are general in nature and affect all the sectors
 - (c) There are designed to regulate the direction of credit
 - (d) These are also known as selective methods of control
199. Which one of the following is not a part of qualitative method of credit control instruments of RBI ?
- (a) Open market operations
 - (b) Margin requirements
 - (c) Moral suasion
 - (d) Selective credit control
200. _____ is the interest rate at which RBI lends long – term funds to banks.
- (a) interest rate
 - (b) bank rate
 - (c) repo rate
 - (d) marginal rate
201. RBI provides financial accommodation to the commercial banks through repos/reverse repos under :
- (a) Market Stabilization scheme (MSS)
 - (b) The Marginal Standing Facility (MSF)
 - (c) Liquidity adjustment facility (LAF)
 - (d) Statutory Liquidity Ratio (SLR)

202. In India, the term 'Policy rate' refers to :

- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
- (b) The CRR and SLR prescribed by RBI in its monetary policy statement
- (c) The fixed repo rate quoted for sovereign securities in the overnight segment of liquidity adjustment facility (LAF)
- (d) The fixed repo rate quoted for sovereign securities of marginal standing facility (MSF)

203. _____ is a money market instrument, which enables collateralized short – term borrowing and lending through sale/purchase operations in debt instruments.

- (a) OMO (b) CRR (c) SLR (d) Repo[®]

204. Reserve repo operation takes place when :

- (a) RBI borrows money from banks by giving them securities
- (b) Banks borrow money from RBI by giving them securities
- (c) Banks borrow money in the overnight segment of the money market
- (d) RBI borrows money from the central government

205. The monetary policy framework agreement is on _____

- (a) The maximum repo rate that RBI can charge from government
- (b) The maximum tolerable inflation rate that RBI should target to achieve price stability
- (c) The maximum repo rate that RBI can charge from the commercial banks
- (d) The maximum reverse repo rate that RBI can charge from the commercial banks

206. An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks.
- (a) Bonds and bills of exchange
 - (b) Debentures and shares
 - (c) Government and shares
 - (d) None of these
207. Monetary policy committee (MPC) determines the policy rate to achieve the inflation target through debate and majority vote by a panel of experts. How many members does this MPC consists of ?
- (a) Three members
 - (b) Four members
 - (c) Five members
 - (d) Six members
208. Under _____ the government of India borrows from the RBI (Such borrowing being additional to its normal borrowing requirements) and issues treasury bills/dated securities.
- (a) Market stabilization scheme (MSS)
 - (b) Minimum statutory scheme (MSS)
 - (c) Marginal standing facility (MSF)
 - (d) Minimum statutory facility (MSF)
209. _____ is defined as an instrument for lending funds by purchasing securities with an agreement to resell the securities on a mutually agreed future date at an agreed price which includes interest for the funds lent.
- (a) Reverse repo
 - (b) Repo rate
 - (c) Bank repo
 - (d) MSF
210. The monetary policy framework agreement is an agreement reached between the government of India and the reserve bank of India (RBI) to keep the consumer price index (CPI) inflation rate between _____.
- (a) 1 to 5 per cent
 - (b) 2 to 6 per cent
 - (c) 3 to 5 per cent
 - (d) 4 to 6 per cent