



CA Foundation – New Syllabus  
(New Syllabus)  
Business Economics

Chapter 8  
**MONEY MARKET**

**New MCQs by MVSIR**

MCQ Compiler by MVSIR

New MCQs by MVSIR

UNIT 1

- 1 Which of the following statements are false regarding 'Fiat money'?
- It is materially worthless, i.e. no intrinsic value
  - It is similar to commodity money like gold, silver
  - It has value because a nation collectively agrees to ascribe a value to it, as govt made them legal tender
  - Both a & c
- 2 Money can be defined for policy purposes as \_\_\_\_\_
- certain liquid liabilities of a particular set of financial intermediaries or other issuers
  - set of liquid financial assets, the variation in the stock of which could impact on aggregate economic activity
  - A medium of exchange
  - Both a & b
- 3 Which of the following is not a general characteristic of money?
- It should be generally accepted
  - It should be effortlessly recognizable
  - It should be abundant in supply
  - It should be portable
- 4 Demand for money is \_\_\_\_\_
- Money which is deposited in bank account
  - how much of one's given stock of wealth should be held in form of money rather than as other assets such as bonds
  - Amount of money a person desires to hold with himself
  - Both b & c

- 5 \_\_\_\_\_ the income of individuals, \_\_\_\_\_ the expenditure; richer people hold \_\_\_\_\_ money to finance their expenditure
- Lower, higher, less
  - Lower, lower, more
  - Higher, higher, more
  - Higher, lower, more
- 6 The quantity which people desire to hold is \_\_\_\_\_ proportional to the prevailing price level
- Directly
  - Inversely
  - Negatively
  - Both b & c
- 7 Innovations such as internet banking, application based transfers & ATMs \_\_\_\_\_ the need for holding liquid money
- Increase
  - Reduce
  - Does not affect
  - None of the above
- 8 The Quantity theory of money was propounded by \_\_\_\_\_ of Yale University in his book '\_\_\_\_\_' published in 1911
- Adam Smith, Wealth of Nations
  - Lionel Robbins, Nature & Significance of Economics
  - Irving Fisher, The Purchasing Power of Money
  - Baumol & Tobin, Inventory Approach
- 9 Velocity= 19, Price= 108.5  
No. of transactions= 120 crore  
Then, calculate M, as per quantity theory of money
- 17.18
  - 685.26
  - 21.01
  - Any of the above

- 10 Calculate velocity of money, as per quantity theory of money when,  
Money Supply = 5000 billion  
Price = 110  
Volume of transaction = 200
- 2750
  - 4.40
  - 2.75
  - 3.09

- 11 In the equation  $MV = PT$ , Demand for money is denoted by \_\_\_\_\_
- MV
  - M
  - PT
  - T

- 12 As per quantity theory of money
- Money demand is inversely proportional to interest rates
  - Money demand is directly proportional to income
  - Money demand is directly proportional to number of transactions
  - All of the above

- 13 The expanded form of Quantity Theory of Money is \_\_\_\_\_
- $MV = PT$
  - $M'V' = PT$
  - $MV + M'V' = PT$
  - $MV = P'T'$

- 14 \_\_\_\_\_ is also known as neo-classical theory
- Keynesian Theory of Demand of Money
  - Quantity Theory of Money
  - Cash Balance Approach
  - Both a & b

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- 15 Cambridge version holds that money increases utility in \_\_\_\_\_ ways
- enabling the possibility of split-up of sale and purchase to two different points of time rather than being simultaneous
  - being a hedge against uncertainty
  - to take advantage of the future changes in the rate of interest
  - Both a & b
- 16 As per Cambridge approach,  $Md = k.PY$   
Here 'k' means \_\_\_\_\_
- Marginal propensity to consume
  - proportion of nominal income that people want to hold as cash
  - Investment multiplier
  - Money multiplier
- 17 Keynesian Theory of Demand for Money is also known as \_\_\_\_\_
- Equation of exchange
  - Liquidity Preference Theory
  - Transaction approach
  - Classical Approach
- 18 Money is demanded to bridge the time gap between receipt of income and planned expenditures. This shows \_\_\_\_\_
- Transaction demand for money
  - Precautionary demand for money
  - Speculative demand for money
  - All of the above
- 19 A portion of income to finance unanticipated expenses which may occur due to unforeseen contingencies. This shows \_\_\_\_\_
- Transaction demand for money
  - Precautionary demand for money
  - Speculative demand for money
  - All of the above

- 20 People demand to hold money balances to take advantage of the future changes in the rate of interest. This shows \_\_\_\_\_
- Transaction demand for money
  - Precautionary demand for money
  - Speculative demand for money
  - All of the above
- 21 Market value of bonds & market rate of interest are \_\_\_\_\_
- Directly related
  - inversely related
  - Positively related
  - Both a & c
- 22 As per speculative motive of holding money, if the wealth-holders consider current interest rate as low, compared to the 'critical rate of interest', then-
- they expect the rate of interest to rise in future
  - they expect fall in bond prices
  - they would have an incentive to hold their wealth in the form of liquid cash rather than bonds
  - All of the above
- 23 As per speculative motive of holding money, as long as-  
 • current rate of interest is higher than the critical rate of interest, a typical wealth-holder would hold in his asset portfolio \_\_\_\_\_, &  
 • if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist \_\_\_\_\_
- only government bonds, wholly of cash
  - wholly of cash, only government bonds
  - Both a & b
  - None of the above

- 24 \_\_\_\_\_ is a situation when expansionary monetary policy (increase in money supply) does not increase interest rate, income & hence does not stimulate economic growth.
- Crowding out effect
  - Liquidity Trap
  - Both a & b
  - None of the above
- 25 Inventory Theoretic Approach was given by \_\_\_\_\_
- Alfred Marshall
  - Milton Friedman
  - Irving Fisher
  - Baumol & Tobin
- 26 As per Baumol, people hold \_\_\_\_\_ i.e., an amount that opportunity cost.
- Only cash balance, minimises
  - Only bonds, minimises
  - optimum combination of bonds and cash balance, minimises
  - Only cash balance, increases
- 27 As per Milton Friedman, total wealth is \_\_\_\_\_
- average income on five asset classes - money, bonds, equity, physical capital & human capital
  - Permanent Income
  - Permanent Income / discount rate
  - Money demand
- 28 Tobin's theory of 'Demand for Money as Behaviour toward Risk' implies that demand for money depends \_\_\_\_\_
- Directly on number of transactions
  - negatively on the interest rate
  - Directly on income
  - Directly on price level

- 1 The supply of money is a \_\_\_\_\_ variable, and change in the supply of money is a \_\_\_\_\_ variable.
- Flow, stock
  - Stock, flow
  - Flow, flow
  - Stock, stock
- 2 Money supply is \_\_\_\_\_
- stock of money available to the 'public' as a means of payments and store of value
  - always smaller than the total stock of money that really exists in an economy
  - Money held by producers of money
  - Both a & b
- 3 'Supply of money' excludes-
- interbank deposits
  - money held by government
  - money held by banking system
  - All of the above
- 4 Empirical analysis of money supply is important because-
- Facilitates analysis of monetary developments to provide an understanding of causes of money growth
  - Provides a framework to evaluate whether stock of money in economy is consistent with standards for price stability & helps central banks in making monetary policy
  - Helps in making fiscal policy
  - Both a & b

- 5 Sources of money supply are-
- High Powered Money
  - Credit Money
  - Both a & b
  - Amount of money people desire to hold with themselves

- 6 Reserve money determines the level of-
- Price Level in the economy
  - Level of Liquidity & price level in the economy
  - Level of output
  - Both b & c

7 Calculate Reserve Money

Components	(Billions Rs.)
Currency in circulation	15,428.40
Demand Deposit with Banks	3,546.92
Bankers Deposits with RBI	4,596.18
Other Deposits with RBI	183.30

- 20,207.88
- 23,754.80
- 19,158.62
- 20,024.58

8 Calculate Currency with Public & Reserve Money respectively-

Components	(Billions Rs.)
Notes in Circulation	25,00,000
Circulation of Rupee Coins	26,000
Circulation of Small Coins	850
Cash on hand with Banks	95,000
Bankers' Deposits with RBI	4,500
Other Deposits with RBI	180

- 25,26,850 and 25,31,530
- 24,31,850 and 25,31,530
- 25,00,000 and 25,04,680
- 25,26,000 and 25,03,830

**9 Calculate Narrow Money**

Components	(Billions Rs.)
Currency with the public	15,473.2
Demand deposits of banks	6,943.1
Saving deposits with post office saving bank	978.1
Other deposits of RBI	501.2

a) 23,895.60  
b) 22,917.50  
c) 23,394.40  
d) 16,952.50

**10 Calculate M1**

Components	(Billions Rs.)
Currency with public	2,13,279.8
Time deposits with bank	3,45,000.7
Demand deposits with bank	1,62,374.5
Post office savings deposit	382.9
Other deposits of RBI	765.1

a) 3,76,419.40  
b) 7,21,803.00  
c) 7,21,420.10  
d) 5,59,045.60

**11 Calculate M1**

Components	(Rs. In cr)
Cash in hands of public	300
Demand Deposits	400
Money Market Mutual Funds	1000
Traveller's checks	50
Small Time Deposits	500
Large Time Deposits	450
Other Checkable Deposits	150

a) 2,850  
b) 700  
c) 900  
d) 750

**12 Calculate M2**

Components	(Rs. In cr)
Currency with public	4,33,856.6
Other deposits with RBI	1,234.2
Saving deposits with post office saving banks	647.7
Net time deposits with the banking system	5,14,834.3
Demand deposits with banks	2,74,254.9

a) 7,11,145.70  
b) 7,11,793.40  
c) 12,26,627.70  
d) 12,25,980.00

**13 Calculate M1 & M2 respectively**

Components	(Rs. In cr)
Notes in Circulation	2,42,09,645
Rupee Coin in Circulation	3,25,572
Small Coins in Circulation	7,434
Post Office Saving Bank Deposits	14,17,868
Cash in Hand with banks	9,75,635
Deposit Money of the Public	1,77,61,992
Demand Deposited with banks	1,73,76,925
Other Deposits with Reserve Bank	3,85,074
Total Post Office Deposits	15,48,966
Time Deposits with Banks	17,86,969

a) M1= 4,13,29,015 & M2= 4,27,46,883  
b) M1= 4,27,46,883 & M2= 4,13,29,015  
c) M1= 4,23,04,650 & M2= 4,37,22,518  
d) M1= 4,23,04,650 & M2= 4,52,71,484

**14 Which of the following is most liquid ?**

a) M1  
b) M2  
c) M3  
d) M4

**15 Calculate M3**

Components	(Rs. In cr)
Currency with the public	2,25,432.6
Demand Deposits with Banks	3,40,242.4
Time Deposits with Banks	2,80,736.8
Post office savings Deposits (Excluding National Saving Certificates)	446.7
Other Deposits with RBI (including Government Deposits)	392.7
Post Office National Saving Certificates	83.7
Government Deposits with RBI	102.5

a) 8,46,804.50  
b) 8,46,618.30  
c) 8,46,702.00  
d) 8,46,785.70

**16 Calculate M4**

Components	(Rs. In cr)
Currency with the public	1,12,206.6
Demand Deposits with Banks	1,93,300.4
Net Time Deposits with Banks	2,67,310.2
Other Deposits of RBI	614.8
Post Office Savings Deposits	277.5
Post Office National Savings Certificates (NSCs)	110.5

a) 5,73,709.50  
b) 5,73,432.00  
c) 5,73,820.00  
d) 3,06,509.80

**17 If required reserve ratio is 25%, then money multiplier will be ?**

a) 0.75  
b) 0.25  
c) 5  
d) 4

**18** If a person gets Re 1 she will put Rs \_\_\_\_\_ in her bank account and keep Rs \_\_\_\_\_ in cash.  
(Currency Deposit Ratio = c = ratio of money held by the public in currency to that they hold in bank deposits)

a) c , 1/c  
b) 1/(1+c) , c/(1+c)  
c) c/(1+c) , 1/(1+c)  
d) 1/c , c

**19** If Required Reserve = Rs 50 cr  
Total Reserve of Bank = Rs 75 cr  
Total Deposits with bank = Rs 300 cr  
Currency held by public = Rs 100 cr  
Calculate Money multiplier

a) 2.75  
b) 3.74  
c) 2.29  
d) 3.59

**20** If Required Reserve Ratio = 0.25  
Excess Reserve Ratio = 0.10  
Currency Deposit Ratio = 0.40  
Calculate Money multiplier

a) 1.87  
b) 1.33  
c) 0.75  
d) 0.25

**21** Whether money multiplier and credit multiplier are always equal ?

a) Yes, always equal  
b) No, they are equal only when we assume banks do not hold excess reserves & public does not hold currency and deposit whole money in bank  
c) No, they are never equal  
d) None of the above

22 Credit multiplier =  
a)  $(1+c)/(r+e+c)$   
b)  $1/r$   
c)  $(r+e+c)/(1+c)$   
d)  $1/(r+e+c)$

23 As per, Milton Friedman & Anna Schwartz, there are three factors considered as immediate determinants of money supply

- a) Stock of high-powered money
- b) Reserve-ratio
- c) Currency Deposit Ratio
- d) All of the above

24 The value of reserve ratio \_\_\_\_\_

- a) Depends upon Behaviour of Central Bank
- b) Depends upon Behaviour of Commercial Banks
- c) Depends upon Behaviour of Public
- d) None of the above

25 Total supply of money in economy \_\_\_\_\_ with the supply of high-powered money.

- a) Vary inversely
- b) Vary directly
- c) Does not relate
- d) None of the above

26 If required reserve ratio decreases -  
• banks will \_\_\_\_\_ lending,  
• causing a \_\_\_\_\_ in deposits  
• & hence money supply will \_\_\_\_\_

- a) decrease, rise, increase
- b) Increase, fall, decrease
- c) Increase, rise, increase
- d) decrease, fall, decrease

27 Smaller the excess reserve ratio

- a) smaller the money multiplier
- b) larger the money multiplier
- c) No change in money multiplier
- d) None of the above

28 When costs to bank of holding excess reserves (market rate of interest) falls, the level of excess reserves \_\_\_\_\_, hence money multiplier will be \_\_\_\_\_

- a) falls, larger
- b) Rises, smaller
- c) falls, smaller
- d) Rises, larger

29 During festival season, people decide to use ATMs very often. This will \_\_\_\_\_ excess reserve ratio & thus money multiplier will \_\_\_\_\_

- a) increase, fall
- b) decrease, rise
- c) increase, rise
- d) decrease, fall

30 Excess Reserves of banks \_\_\_\_\_

- a) do not lead to additional loans
- b) do not lead to creation of money
- c) Lead to increase in money multiplier
- d) Both a & b

31 If public decides to keep more money in their pocket and less money in bank. It leads to an \_\_\_\_\_ in currency ratio & \_\_\_\_\_ in money multiplier

- a) Increase, rise
- b) Increase, fall
- c) decrease, rise
- d) decrease, fall

32 Fearing shortage of money in ATMs, people decide to hoard money. This will lead to \_\_\_\_\_

- a) Decrease in currency ratio & decrease in money multiplier
- b) decrease in currency ratio & increase in money multiplier
- c) Increase in currency ratio & decrease in money multiplier
- d) Increase in currency ratio & increase in money multiplier

33 \_\_\_\_\_ represents degree of adoption of banking habits by people

- a) Required reserve ratio
- b) Excess reserve ratio
- c) Currency deposit ratio
- d) Time deposit-demand deposit ratio

34 Banks open large number ATMs all over the country. This will lead to \_\_\_\_\_

- a) Decrease in currency ratio & decrease in money multiplier
- b) decrease in currency ratio & increase in money multiplier
- c) Increase in currency ratio & decrease in money multiplier
- d) Increase in currency ratio & increase in money multiplier

35 E-banking becomes very common and nearly all people use them. This will lead to \_\_\_\_\_

- a) Decrease in currency ratio & decrease in money multiplier
- b) Increase in currency ratio & decrease in money multiplier
- c) decrease in currency ratio & increase in money multiplier
- d) Increase in currency ratio & increase in money multiplier

36 An increase in time deposit-demand deposit ratio means that \_\_\_\_\_ availability of free reserves \_\_\_\_\_ which leads to \_\_\_\_\_ in volume of multiple deposit expansion & thus, \_\_\_\_\_ multiplier

- a) Greater, increase, high
- b) Smaller, increase, high
- c) Smaller, decrease, low
- d) Greater, increase, low

37 When interest rates are too low & banks prefer to hold all deposits as excess reserves with no risk attached to it, then Money multiplier will be \_\_\_\_\_

- a) Very high
- b) Infinite
- c) Zero
- d) More than 1

38 If Commercial Banks do not keep reserves, then what will happen?

- a) Money multiplier will be zero & money supply will be infinite
- b) Money multiplier will be zero & money supply will not change
- c) Money multiplier will be infinite & money supply will be infinite
- d) Money multiplier will be infinite & money supply will not change

39 If Commercial Banks keep 100% reserves, then what will happen?

- a) Money multiplier will be 1 & no new money will be created
- b) Money multiplier will be zero & no new money will be created
- c) Money multiplier will be infinite & no new money will be created
- d) Money multiplier will be infinite & money supply will be infinite

- 40 Calculate Money Multiplier, if:  
Reserve Ratio (r) = 10%  
Currency = Rs 200 billion  
Deposits = Rs 400 billion  
Excess Reserve = Rs 800 million
- a) 2.765  
b) 3.492  
c) 2.492  
d) 3.765
- 41 What will be the total credit created by the commercial banking system for an initial deposit of Rs 1000. If the required reserve ratio 20%
- a) Credit Creation= Rs 4,000  
b) Credit Creation= Rs 5,000  
c) Credit Creation= Rs 10,000  
d) Credit Creation= Rs 2,000

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- 1 When RBI lower interest rates, monetary policy is \_\_\_\_\_
- a) Tightening  
b) Easing  
c) Both a & b  
d) None of the above
- 2 Monetary policy framework has some basic components-
- a) objectives of monetary policy,  
b) analytics of monetary policy which focus on transmission mechanisms,  
c) operating procedure which focuses on operating targets & instruments  
d) All of the above
- 3 The primary objective of monetary policy is \_\_\_\_\_
- a) price stability  
b) economic growth  
c) Both a & b  
d) None of the above
- 4 Objectives of Monetary Policy in case of developing countries are
- a) maintenance of economic growth and ensuring an adequate flow of credit to productive sectors  
b) sustaining a moderate structure of interest rates to encourage investments,  
c) creation of an efficient market for government securities.  
d) All of the above

- 5 Transmission of monetary policy describes-
- a) how an increase in the monetary base causes the money supply to increase by a multiplied amount  
b) how changes made by RBI to its monetary policy settings flow through to economic activity and inflation  
c) Both a & b  
d) None of the above

- 6 A reduction in lending rates reduces interest repayments on debt; increasing the amount available with households and businesses to spend on goods & services. This is an example of \_\_\_\_\_
- a) Saving and Investment Channel  
b) Cash-flow Channel  
c) Asset Prices and Wealth Channel  
d) Exchange Rate Channel

- 7 As per Saving and Investment Channel, lower interest rates for loans can \_\_\_\_\_ households to borrow \_\_\_\_\_ as they face \_\_\_\_\_ repayments.
- a) discourage, more, lower  
b) Encourage, less, more  
c) Encourage, less, lower  
d) Encourage, more, lower

- 8 Reduction in interest rates \_\_\_\_\_ the amount of income that households and businesses get from deposits, and thus \_\_\_\_\_ their spending
- a) Reduces, increase  
b) Reduces, restrict  
c) Increases, restrict  
d) Increases, increase

9	As per Asset Price & Wealth Channel, higher asset prices _____ the equity (collateral) of an asset that is available for banks to lend against. This can make it _____ for households and businesses to borrow	13	Banks are required to keep a portion of its net demand & time liabilities in cash with RBI
	a) Increase, easier b) Decrease, easier c) Increase, difficult d) None of the above		a) Marginal Standing Facility b) Excess Reserve Ratio c) Cash Reserve Ratio d) Statutory Liquid Ratio
10	As per Asset Price & Wealth Channel, an increase in asset prices _____ people's wealth. This can lead to _____ consumption and housing investment as households generally spend some share of any increase in their wealth	14	Does RBI need to pay interest on CRR amount?
	a) Decrease, lower b) Increase, higher c) Decrease, higher d) Increase, lower		a) Yes b) No c) Sometimes d) More than repo rate
11	As per Exchange Rate Channel, a reduction in interest rates in India (compared with rest of world) results in a _____ exchange rate, making foreign goods more _____ compared with those produced in India	15	Banks are required to set aside a portion of its net demand & time liabilities, in form of liquid assets such as cash, gold or RBI approved securities.
	a) Lower, expensive b) higher, cheaper c) higher, expensive d) Lower, cheaper		a) Marginal Standing Facility b) Excess Reserve Ratio c) Cash Reserve Ratio d) Statutory Liquid Ratio
12	As per Exchange Rate Channel, Lower interest rates _____ returns investors earn from assets in India, thus leading to _____ demand for assets in India (also for Indian rupees) with investors shifting their funds to foreign assets (and currencies) instead.	16	When the RBI sells government securities, the liquidity is _____ from the market leading to _____ in money supply
	a) increase, reduced b) reduce, reduced c) increase, increased d) reduce, increased		a) Injected, increase b) Injected, decrease c) sucked, increase d) sucked, decrease
		17	When there is high inflation in the country, then RBI would _____ to achieve price stabilize
			a) Buy government securities b) Sell government securities c) Both a or b d) None of the above
		18	The monetary policy tools that impact money supply in the entire economy are called _____
			a) Qualitative tools b) Selective Credit Control tools c) Quantitative tools d) Both a & b

19	_____ are tools that have an effect in the money supply of a specific sector of the economy	24	_____ is the rate at which banks borrow from RBI on a short-term basis against a repurchase agreement
	a) Qualitative tools b) Selective Credit Control tools c) Quantitative tools d) Both a & b		a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate
20	Which of the following is not a quantitative tool of monetary policy	25	Which of the following is correct
	a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Repo Rate d) Moral Suasion		a) Reverse Repo Rate = Repo Rate - 1 b) Reverse Repo Rate = Repo Rate + 1 c) Repo Rate = Reverse Repo Rate - 1 d) Repo Rate = Reverse Repo Rate + 1
21	RBI convinces banks to keep money in government securities, rather than certain sectors. This is an example of _____	26	The penal rate at which the Central Bank lends money to banks, over and above what is available to them through LAF window, by dipping into their SLR portfolio upto a limit
	a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Margin Requirement d) Moral Suasion		a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate
22	Under _____ the Government of India borrows from the RBI (such borrowing being additional to its normal borrowing requirements) and issues treasury-bills/dated securities.	27	Banks availing MSF Rate can use a maximum of _____ of SLR securities
	a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Market Stabilisation Scheme d) Marginal Standing Facility		a) 1% b) 5% c) 10% d) 50%
23	The interest rate at which RBI lends long term funds to banks is referred to as the bank rate	28	Which of following is correct
	a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate		a) MSF Rate = Repo Rate - 1 b) MSF Rate = Repo Rate + 1 c) MSF Rate = Repo Rate - 1 d) Repo Rate = MSF Rate + 1
		29	Inflation target is set by Govt. of India, in consultation with RBI, once in every _____ years
			a) 3 b) 5 c) 7 d) 10

30 The following factors are notified by central govt. as constituting a failure to achieve the inflation target

a) Average inflation is more than upper tolerance level of inflation target for any 3 consecutive quarters  
b) Average inflation is less than lower tolerance level for any three consecutive quarters  
c) Both a or b  
d) Average inflation is more/less than lower tolerance level for any five consecutive quarters

31 RBI increases repo rate by 50 basis points. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

32 RBI reduces cash reserve ratio. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

33 RBI increases the supply of currency and coins. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

34 RBI terminates marginal standing facility. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

35 RBI increases the interest rates chargeable by commercial banks. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

36 RBI sells securities in the open market. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
b) Contractionary fiscal policy  
c) Expansionary fiscal policy  
d) Expansionary monetary policy

37 \_\_\_\_\_ are conducted by the RBI by way of sale or purchase of government securities to adjust money supply conditions

a) Re-discounting of bills  
b) Liquidity Adjustment Facility  
c) Open Market Operations  
d) Marginal Standing Facility

38 The current Repo Rate is 6%. The difference between repo and reverse repo shall be 180 basis points. RBI decreases repo by 50 basis points. What is the new Reverse Repo Rate?

a) 7.80%  
b) 8.30%  
c) 3.70%  
d) 7.30%

ANSWER KEY - Chapter 8 - New MCQs by MVSIR

Unit 1											
1	B	6	A	11	C	16	B	21	B	26	C
2	B	7	B	12	C	17	B	22	D	27	C
3	C	8	C	13	C	18	A	23	A	28	B
4	D	9	B	14	C	19	B	24	B		
5	C	10	B	15	D	20	C	25	D		

Unit 2															
1	B	6	B	11	C	16	A	21	B	26	C	31	B	36	A
2	D	7	A	12	B	17	D	22	B	27	B	32	C	37	C
3	D	8	B	13	A	18	B	23	D	28	B	33	C	38	C
4	D	9	B	14	A	19	C	24	B	29	A	34	B	39	A
5	C	10	A	15	C	20	A	25	B	30	D	35	C	40	C
														41	B

Unit 3															
1	B	6	B	11	A	16	D	21	D	26	C	31	A	36	A
2	D	7	D	12	B	17	B	22	C	27	A	32	D	37	C
3	C	8	B	13	C	18	C	23	D	28	B	33	D	38	C
4	D	9	A	14	B	19	D	24	A	29	B	34	A		
5	B	10	B	15	D	20	D	25	A	30	C	35	A		

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Business Economics

**Chapter 8**  
**MONEY MARKET**

**ICAI Extra MCQs**

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Chapter 8

ICAI Extra MCQs	
1	Bank earn a profit on the difference between: a) Interest charged to depositors and interest offered to borrowers b) Interest charged on loans and interest paid on deposits c) Deposit and loan balances d) Liabilities and deposits
2	Broad money refers to: a) M1 b) M2 c) M3 d) M4
3	The effect of increase CRR will be reduced or nullified if: a) Bank rate is reduced. b) Securities are sold in the open market. c) SLR is increased. d) People do not borrow from non-banking institutions.
4	Open Market operation imply: a) Buying and selling securities by RBI b) Buying and selling securities by commercial banks c) Buying and selling securities by investors d) Buying and selling securities by government
5	According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money a) Tobin b) Baumol c) Keynes d) Alfred Marshall
6	During depression, it is advisable to: a) Lower Bank Rate and purchase securities in the market. b) Increase Bank Rate and purchase securities in the open market. c) Decrease Bank Rate and sell securities in the open market. d) Increase Bank Rate and sell securities in the open market.
7	Reserve money is supplied by: a) RBI b) Government c) Commercial banks d) World bank
8	The Repo rate is: a) An emergency window for a banks b) Commercial banks lend money to RBI c) Commercial banks rediscount the bills of exchange with RBI d) RBI lends money to commercial banks
9	Reverse repo rate is: a) Equal to CRR b) Equal to Bank rate c) Equal to MSF d) Lower a than Repo rate
10	To influence spending the monetary policy is directed at directly influencing in the short run: a) Interest Rate b) Unemployment c) Inflation Rate d) Growth Rate
11	The targeted inflation rate for RBI a) 4% b) 2% c) 6% d) 5%

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MCQ Compiler

Chapter 8

12 MPC comprises \_\_\_\_\_ Member:  
 a) 3  
 b) 5  
 c) 6  
 d) 4

13 Bank rate is the rate at which:  
 a) Commercial banks lend to RBI  
 b) RBI lends to commercial banks  
 c) RBI lends to government  
 d) RBI lends to foreign banks

14 Which of the following monetary instruments are indirect instruments of Monetary Policy?  
 a) Cash Reserve Ratio  
 b) Open Market Operation  
 c) Repo Rate  
 d) Both B & C

15 Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?  
 a) Transaction Motive  
 b) Speculative Motive  
 c) Precautionary Motive  
 d) Conservative Motive

16 Banks perform the function of  
 a) Receiving deposits.  
 b) Lending of money.  
 c) Agency services.  
 d) All of the above.

17 Motives for holding money by people as per Keynes:  
 a) Transaction motive  
 b) Precautionary motive  
 c) Speculative motive  
 d) All of the above

18 Which measure of Money supply is known as the aggressive monetary resources?  
 a) M1  
 b) M2  
 c) M3  
 d) M4

19 Among the following identified by Friedman, which one is not one of the four determinants of demand for money?  
 a) Average return on five asset classes  
 b) Price level in the economy  
 c) Inflation Rate  
 d) Forex Trade

20 Narrow money refers to:  
 a) M1  
 b) M2  
 c) M3  
 d) M4

21 What will be the value of credit multiplier when the Required Reserve ratio is 50%?  
 a) 4  
 b) 2  
 c) 3  
 d) 1

22 Risk aversion theory is based on:  
 a) Interest rate theory  
 b) Behavioural theory  
 c) Principles of portfolio management  
 d) None of the above

23 If a bank has deposits of Rs 50,00,000 & reserve requirement of 10%. But the bank has total reserves of Rs 12,00,000 what is its excess reserves?  
 a) Rs 12,00,000  
 b) Rs 17,00,000  
 c) Rs 7,00,000  
 d) Rs 62,00,000

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Chapter 8

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24 When the central bank conducts open market operations to purchase government securities, what happens to the monetary base and the money supply?  
 a) Monetary base increases, money supply increases  
 b) Monetary base increases, money supply decreases  
 c) Monetary base decreases, money supply increases  
 d) Monetary base decreases, money supply decreases

25 \_\_\_\_\_ is used only for calculating penalty on default in the maintenance of CRR & SLR  
 a) Repo Rate  
 b) Reverse-Repo Rate  
 c) MSF Rate  
 d) Bank Rate

26 Empirical evidence of liquidity trap is found during :  
 a) COVID-19  
 b) Great recession  
 c) Global Financial crisis  
 d) None of the above

27 Which of the following is true with regards to Liquidity Trap?  
 a) Speculative Demand is parallel to X-Axis  
 b) Desire to hold bond is infinity  
 c) Ineffective Monetary policy  
 d) Both a & c

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ANSWER KEY - Chapter 8 - ICAI Extra MCQs

1	B	6	A	11	A	16	D	21	B	26	C
2	C	7	A	12	C	17	D	22	C	27	D
3	A	8	D	13	B	18	C	23	C		
4	A	9	D	14	D	19	D	24	A		
5	A	10	A	15	C	20	A	25	D		

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**Chapter 8**  
**MONEY MARKET**

MTP MCQs by MVSIR

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**Chapter 8**

MTP MCQs	
1	<p>MTP Apr 24</p> <p>If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?</p> <p>a) Increase b) Decrease c) No change d) Variable, pending on other factors.</p>
2	<p>MTP Apr 24, RTP Sept 24</p> <p>Which of the following is included in compared in M2, a broader measure of money supply compared to M1?</p> <p>a) Currency in circulation b) Savings deposits c) Demand deposits d) Travellers' checks</p>
3	<p>MTP Apr 24</p> <p>Which of the following policy measures is typically used by central banks to manage the business cycle?</p> <p>a) Fiscal policy. b) Monetary policy. c) Trade policy. d) Industrial policy.</p>
4	<p>MTP Apr 24</p> <p>A central bank that wants to stabilize the economy in the short run should try to:</p> <p>a) establish a clear inflation target and stick to it no matter what b) affect aggregate supply through open market operations c) affect aggregate demand through open market operations d) concentrate only on long-run goals</p>
5	<p>MTP Apr 24</p> <p>What is the "liquidity trap" in Keynesian theory?</p> <p>a) A situation where interest rates are very high. b) A situation of hyperinflation c) A situation where interest rates are very low, and savings are hoarded. d) A situation of excessive government spending.</p>
6	<p>MTP Apr 24</p> <p>If the reserve requirement is 20%, what is the potential maximum of the money supply when a new deposit of \$1,000 is made?</p> <p>a) \$5,000 b) \$2,000 c) \$1,000 d) \$500</p>
7	<p>MTP May 24</p> <p>According to Cambridge equation, the value of money depends upon:</p> <p>a) Demand for money b) Supply of money c) Demand for goods and services d) All of the above</p>
8	<p>MTP May 24</p> <p>The quantity demanded of money rises:</p> <p>a) As the repo rate increases b) As the repo rate falls c) As the supply of money falls d) As the number of banks rises</p>
9	<p>MTP May 24</p> <p>When the Central Bank intends to expand the credit, it should:</p> <p>a) Raise the margin requirements b) Raise the variable reserve ratio c) Lower the bank rate d) Purchase government securities in the open market</p>

MTP May 24  
10 Which of the following is not an instrument of selective credit control?  
a) Margin requirements  
b) Open market operation  
c) Credit rationing.  
d) None of the above

MTP May 24  
11 Which among the following is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India?  
a) Bank rate  
b) Discount window.  
c) Marginal Standing facility  
d) Overnight rate

RTP Sep 24  
12 In order to influence spending on the goods and services in the short run, \_\_\_\_\_ is directed at directly influencing interest rate:  
a) Fiscal policy  
b) Budgetary policy  
c) Monetary policy  
d) Economic policy

MTP May 24  
13 What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?  
a) 4  
b) 2  
c) 3  
d) 1

MTP May 24  
14 The Reverse repo rate is:  
a) RBI borrows from the government.  
b) Commercial banks lends money to RBI  
c) Commercial banks rediscount the bills of exchange with RBI  
d) None of these

MTP May 24  
15 Money Supply is directly proportional to:  
a) Cash reserve ratio (r)  
b) Monetary base (H)  
c) Currency deposit ratio (h)  
d) Excess Reserve Ratio (e)

MTP May 24  
16 Reserve money is supplied by:  
a) RBI  
b) Government  
c) Commercial banks  
d) World bank

MTP May 24  
17 Consumer Price Index is calculated:  
a) Once in 45 days  
b) Once in 3 months  
c) Once in fortnight  
d) Once in a month

RTP Sep 24  
18 Which characteristic of money refers to its ability to hold value over time?  
a) Divisibility  
b) Durability  
c) Portability  
d) Store of value

MTP Jun 24  
19 Macro-Prudential Policy Measures can help to overcome:  
a) Systemic Risk  
b) Credit Risk  
c) Inflation risk  
d) None of these

MTP Jun 24  
20 Broad money refers to:  
a) M1  
b) M2  
c) M3  
d) M4

MTP Jun 24  
21 The effect of increase CRR will be reduced or nullified if:  
a) Bank rate is reduced.  
b) Securities are sold in the open market.  
c) SLR is increased.  
d) People do not borrow from non-banking institutions.

MTP Jun 24  
22 During depression, it is advisable to:  
a) Lower Bank Rate and purchase securities in the market.  
b) Increase Bank Rate and purchase securities in the open market.  
c) Decrease Bank Rate and sell securities in the open market.  
d) Increase Bank Rate and sell securities in the open market.

MTP Jun 24  
23 Open Market Operations imply:  
a) Buying and selling securities by RBI  
b) Buying and selling securities by commercial banks  
c) Buying and selling securities by investors  
d) Buying and selling securities by government

The following table relates to the revenue and expenditure figures of a hypothetical economy

In Rs. lakh Crores	
Recovery of loans	5.1
Salaries of govt. servants	41.1
Capital Expenditure	45.0
Interest payments	1.3
Payments towards subsidies	3.2
Other receipts (mainly from disinvestment)	11.6
Tax revenue (net of states' share)	26.3
Non-tax revenue	12.3
Borrowings and other liabilities	6.8
States' share in tax revenue	11.9

MTP May 24  
24 The capital receipts are  
a) 23.5  
b) 19.7  
c) 11.3  
d) None of the above

The following table relates to the revenue and expenditure figures of a hypothetical economy

In Rs. lakh Crores	
Recovery of loans	5.1
Salaries of govt. servants	41.1
Capital Expenditure	45.0
Interest payments	1.3
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Other receipts (mainly from disinvestment)	11.6
Tax revenue (net of states' share)	26.3
Non-tax revenue	12.3
Borrowings and other liabilities	6.8
States' share in tax revenue	11.9

MTP May 24  
25 Revenue deficit is  
a) 23.6  
b) 13.0  
c) 7.0  
d) 2.6

MTP Jun 24  
26 Which of the following would illustrate a recognition lag?  
a) The time required to identify the appropriate policy  
b) The time required to identify to pass a legislation  
c) The time required to identify the need for a policy change  
d) The time required to establish the outcomes of fiscal policy

MTP Jun 24  
27 Which of the following fiscal remedy would you advice when an economy is facing recession

a) the government may cut interest rates to encourage consumption and investment  
b) the government may cut taxes to increase aggregate demand  
c) the government may follow a policy of balanced the budget.  
d) None of the above will work

MTP Jul 24  
28 Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?

a) Transactions Motive  
b) Speculative Motive  
c) Precautionary Motive  
d) Conservative Motive

MTP Jul 24  
29 Which of the following is true with regards to Liquidity Trap?

a) Speculative Demand is parallel to X-Axis.  
b) Desire to hold bond is infinity.  
c) Ineffective Monetary Policy  
d) Both a & c

MTP July - 24  
30 Among the following identified by Friedman, which one is not one of the four determinants of demand for money?

a) Average return on five asset classes  
b) Price level in the economy  
c) Inflation Rate  
d) Forex Trade

MTP Jul 24  
31 According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money?

a) Tobin  
b) Baumol  
c) Keynes  
d) Alfred Marshall

MTP Jul 24  
32 Which of the following instruments are indirect instruments of Monetary Policy?

a) Cash Reserve Ratio  
b) Open Market Operations  
c) Repo Rate  
d) Both (b) & (c)

MTP July - 24  
33 The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the issue?

a) Increase the reserve requirement ratio to reduce lending.  
b) Decrease the reserve requirement ratio to increase lending.  
c) Increase the interest rate on loans to encourage borrowing.  
d) Decrease the interest rate on loans to encourage borrowing

MTP Jul 24  
34 Are fiscal & monetary policies opposite of each other?

a) Yes, they are opposite to each other  
b) Fiscal policy is superior to monetary policy.  
c) No, these policies are complementary to each other.  
d) None of these

MTP Jul 24  
35 Interest Rate Policy is a part of:

a) Fiscal Policy  
b) Industrial Policy  
c) Monetary Policy  
d) None of the above

MTP Jul 24  
36 \_\_\_\_\_ refers to that portion of total deposits that a commercial bank is required to keep with RBI in the forms of reserves.

a) Compulsory Reserve Ratio  
b) Statutory Liquid Ratio  
c) Legal Reserve Ratio  
d) Cash Reserve Ratio

MTP Jul 24  
37 Calculate M1 from the following money aggregates:

Information	Amount in crores
Currency with Public	5,02,738
Other deposits with the RBI	7016
Banker's deposits with the RBI	202,508
Demand deposits	423,120
Time deposits	23,73636

a) 9,32,874 Cr  
b) 3,306,510 Cr  
c) 9,25,858 Cr  
d) 7,05,246Cr

MTP Jul 24  
38 Banks earn a profit on the difference between:

a) Interest charged to depositors and interest offered to borrowers.  
b) Interest charged on loans and interest paid on deposits.  
c) Deposit and loan balances  
d) Liabilities and deposits

MTP Jul 24  
39 Which of the following is not a money market instrument?

a) Treasury bills  
b) Commercial Paper  
c) Certificate of Deposit  
d) Equity Share

MTP Jul 24  
40 Quantitative easing is the common name for?

a) Asset selling by a Central Bank  
b) Asset purchasing by a Central Bank  
c) Lowering at the interest rate for commercial bank lending  
d) None of these

MTP Jul 24  
41 Which among the following shows a correct descending order of liquidity of M1, M2, M3?

a) M1 > M2 > M3  
b) M2 > M1 > M3  
c) M3 > M2 > M1  
d) M1 > M3 > M2

MTP Aug 24  
42 The Cambridge approach to quantity theory is also known as:

a) Classical approach  
b) Cash balance approach  
c) Fisher's theory of money  
d) None of these

MTP Aug 24  
43 If commercial banks reduce their holdings of excess reserves:

a) The money supply increases  
b) The money base falls  
c) The money supply falls  
d) None of these

MTP Aug 24

44 \_\_\_\_\_ considered demand for money is an application of a more general theory of demand for capital assets.

a) Baumol  
b) Milton Friedman  
c) J M Keynes  
d) None of these

MTP Aug 24

45 RBI provides financial accommodation to the commercial banks through repos/ reverse repos under:

a) Statutory Liquidity Ratio (SLR)  
b) Market stabilisation scheme (MSC)  
c) Liquidity adjustment facility (LAF)  
d) None of these

MTP Aug 24

46 Which of the following does not cause inflation:

a) Easy finance facility  
b) Growth of Black Money  
c) Decrease in public i.e. government expenditure  
d) High growth rate of population

MTP Aug 24

47 Which of the following Policy instruments RBI normally resorts to for managing inflation in the economy

a) Bank Rate  
b) Cash Reserve Ratio  
c) Statutory liquidity Ratio  
d) Repo rate

PYQ Sep 2024

48 What actions can be taken during inflation?

a) Introduce subsidies and reduce tax rates  
b) Implement austerity measures and reduce government spending.  
c) Levy new taxes and raise the rates of existing taxes.  
d) Increase government borrowing and stimulate demand.

PYQ Sep 2024

49 If the monetary base in an open market operation by the central bank, and the money supply is Rs. 1,000 crores, calculate the money multiplier.

a) 0.25  
b) 1  
c) 4  
d) 0.40

PYQ Sep 2024

50 If the reserve ratio (R) is 0.10 and there is an increase in the reserves by Rs. 1,000, what will be the change in the money supply?

a) Rs. 10,000  
b) Rs. 1,000  
c) Rs. 100  
d) Rs. 10

PYQ Sep 2024

51 Which of the following is not a function of money?

a) Providing a common measure of value  
b) Acting as a medium of exchange  
c) Serving as a unit of account  
d) Easily reproducible by people

PYQ Sep 2024

52 The concept of "aversion of risk" is propounded by:

a) James Tobin  
b) Milton Friedman  
c) John Maynard Keynes  
d) Alfred Marshall

PYQ Sep 2024

53 What type of currency is issued by the central bank?

a) Commodity money  
b) Digital money  
c) Fiat money  
d) Representative money

PYQ Sep 2024

54 In an economy, the money supply (M) is 500 crores, the velocity of money (V) is 5 and the total number of transactions (T) is 10,000. Calculate the average price level (P) in the economy.

a) 25 thousand  
b) 25 lakhs  
c) 50 lakhs  
d) 50 thousand

PYQ Sep 2024

55 What does RBI publish every six months, providing explanations of the sources of inflation and forecasts for the upcoming period of six to eighteen months?

a) Economic outlook report  
b) Financial stability report  
c) Monetary policy report  
d) Inflation targeting framework

PYQ Sep 2024

56 Reverse Repo rate is linked to repo rate in the following way:

a) Reverse Repo Rate = Repo Rate + 1  
b) Reverse Repo Rate = Repo Rate - 1  
c) Reverse Repo Rate = Repo Rate x 0.1%  
d) Reverse Repo Rate = Repo Rate x 0.01%

PYQ Sep 2024

57 Real money refers to:

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

PYQ Sep 2024

58 Which of the following is the correct formula to calculate Excess Reserves?

a) Excess Reserves = Total reserves - Required reserves  
b) Excess Reserves = Total reserves + Required reserves  
c) Excess Reserves = Total reserves / Required reserves  
d) Excess Reserves = Total reserves x Required reserves

PYQ June 2024

59 If Velocity=20, Average Price = 120 and volume of transactions T = 150Cr then money supply will be

a) 2500 Cr  
b) 25 Cr  
c) 900 Cr  
d) 1000 Cr

PYQ June 2024

60 Which of the following is a fiat money?

a) Gold Coins  
b) Silver Coins  
c) Currency Notes  
d) Gold coins, Silver Coins as well as currency notes

PYQ June 2024

61 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

**PYQ June 2024**  
62 People's desire to hold cash in order to be equipped to Exploit any attractive investments opportunity requiring cash expenditure reflects

a) Transaction Motive  
b) Speculative motive  
c) Precautionary motive  
d) Personal and business exchange

**PYQ June 2024**  
63 What does the concept of liquidity trap mean?

a) Liquidity trap is a situation where 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 given rate of interest.  
c) The speculative money demand curve becomes parallel to the Y axis  
d) None

**PYQ June 2024**  
64 Calculate broad money M3?

a) Currency with public + demand deposits with banks  
b) Currency with public + demand deposits with banks + net time deposits with the banking system  
c) Currency with public Savings with government banks  
d) Currency with public + Demand Deposits with banks + other deposits with RBI

**PYQ June 2024**  
65 Calculate currency with public

Particulars	(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 Crores  
b) 24,42,115 Crores  
c) 22,45,885 Crores  
d) 23,62,000 Crores

**PYQ June 2024**  
66 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

**PYQ June 2024**  
67 Which of the following is not a channel of monetary transmission mechanism?

a) Savings & investments channel  
b) Cash Flow Channel  
c) Exchange rate channel  
d) International Trade Channel

**PYQ June 2024**  
68 Open Market purchases of government securities by RBI will

a) Reduce the Money Supply  
b) Reduce the reserves  
c) Increase reserves  
d) Reduce the reserves and there by reduces the money supply

Answer Key - Chapter 8 - MTP & PYQ MCQs

1	A	11	A	21	A	31	A	41	A	51	D	61	B
2	B	12	C	22	A	32	D	42	B	52	A	62	B
3	B	13	B	23	A	33	A	43	A	53	C	63	A
4	C	14	B	24	A	34	C	44	B	54	B	64	B
5	C	15	B	25	C	35	C	45	C	55	C	65	A
6	A	16	A	26	C	36	D	46	C	56	B	66	C
7	A	17	D	27	B	37	A	47	D	57	D	67	C
8	B	18	D	28	C	38	B	48	B	58	A	68	C
9	D	19	A	29	D	39	D	49	C	59	C		
10	B	20	C	30	D	40	B	50	A	60	C		

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Chapter 8  
**MONEY MARKET**

**ICAI SM MCQs**

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**UNIT 1**

ICAI SM

1 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 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.

ICAI SM

2 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

ICAI SM

3 Demand for money is

a) Derived demand  
b) Direct demand  
c) Real income demand  
d) Inverse demand

ICAI SM

4 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

ICAI SM

5 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 the above

ICAI SM

6 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

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[www.mvsir.in](http://www.mvsir.in) **8.27**

ICAI SM  
7 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 a means of exchange and therefore demand for money is termed as for liquidity preference
- c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
- d) None of the above

ICAI SM  
8 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

ICAI SM  
9 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

ICAI SM  
10 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

ICAI SM  
11 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

ICAI SM  
12 The inventory-theoretic approach to the transactions demand for money

- a) explains the negative 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

ICAI SM  
13 According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:

- a) a positive function of income Y and the price level P
- b) a positive function of transactions costs c,
- c) a negative function of the nominal interest rate i
- d) All the above

ICAI SM  
14 \_\_\_\_\_ 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

ICAI SM  
15 The nominal demand for money rises if

- a) the opportunity costs of money holdings - i.e. bonds and stock returns, rB and rE, respectively - decline and vice versa
- b) the opportunity costs of money holdings - i.e. bonds and stock returns, rB and rE, respectively - rises and vice versa
- c) the opportunity costs of money holdings - i.e. bonds and stock returns, rB and rE, respectively remain constant
- d) b) and c) above

UNIT 2

ICAI SM  
1 Reserve money is also known as

- a) central bank money
- b) base money
- c) high powered money
- d) all the above

ICAI SM  
2 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 measure of money supply.
- d) Both (a) and (c) above.

ICAI SM  
3 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.

ICAI SM  
4 M1 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

ICAI SM	
5	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 ` 350 crores	

ICAI SM	
6	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	

ICAI SM	
7	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.	

ICAI SM	
8	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	

ICAI SM	
9	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	

ICAI SM	
10	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 above as determinants of money supply are different	

ICAI SM	
11	The money multiplier and the money supply are
a) positively related to the excess reserves ratio e. b) negatively related to the excess reserves ratio e. c) not related to the excess reserves ratio e. d) proportional to the excess reserves ratio e.	

ICAI SM	
12	The currency ratio represents
a) the behaviour of central bank in the issue of currency. b) the behaviour of central bank in respect cash reserve ratio. c) the behaviour of the public. d) the behaviour of commercial banks in the country.	

ICAI SM	
13	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 the above	

ICAI SM	
14	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)	

ICAI SM	
15	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	

ICAI SM	
16	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.	

ICAI SM	
17	If the behaviour of the public and the commercial banks is constant, then
a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money d) all the above are possible	

ICAI SM	
18	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	

ICAI SM	
19	If commercial banks reduce their holdings of excess reserves
a) the monetary base increases. b) the monetary base falls. c) the money supply increases. d) the money supply falls.	

UNIT 3

ICAI SM	
1	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	

ICAI SM	
2	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	

ICAI SM	
3	The monetary transmission mechanism refers to
a) how money gets circulated in different sectors of the economy post monetary policy b) the ratio of nominal interest and real interest rates consequent on a monetary policy c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices d) none of the above	

ICAI SM	
4	A contractionary monetary policy-induced increase in interest rates
a) increases 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 real cost of borrowing for firms d) has no interest rate effect on firms and households	

ICAI SM	
5	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	

ICAI SM	
6	Which of the following statements 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	

ICAI SM	
7	RBI provides financial accommodation to the commercial banks through repos/reverse repos under
a) Market Stabilisation Scheme (MSS) b) The Marginal Standing Facility (MSF) c) Liquidity Adjustment Facility (LAF). d) Statutory Liquidity Ratio (SLR)	

ICAI SM	
8	_____ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
a) OMO b) CRR c) SLR d) Repo	

ICAI SM	
9	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 in the overnight segment of Marginal Standing Facility (MSF)	

ICAI SM	
10	Reverse 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	

ICAI SM	
11	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	

ICAI SM	
12	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 securities d) none of these	

ICAI SM	
	Which statement (s) is (are) true about Monetary Policy Committee?
	I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target. III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose
13	
a) I only b) I and II only c) III and IV d) III only	

Answer Key - Chapter 8 ICAI SM MCQs (Unit - 1)					
1	A	6	A	11	C
2	C	7	C	12	A
3	A	8	A	13	D
4	D	9	A	14	D
5	D	10	C	15	A

Answer Key - Chapter 8 ICAI SM MCQs (Unit - 2)							
1	D	6	B	11	B	16	B
2	C	7	B	12	C	17	A
3	B	8	C	13	D	18	C
4	A	9	A	14	C	19	C
5	B	10	A	15	C		

Answer Key - Chapter 8 ICAI SM MCQs (Unit - 3)					
1	D	6	B	11	B
2	B	7	C	12	C
3	C	8	D	13	B
4	B	9	C		
5	A	10	A		