

Monetary Policy

1. Bank rate is the rate at which the Reserve Bank of India provides loans to

- a) Public sector undertakings
- b) Commercial banks
- c) Private corporate sector
- d) Non-banking financial institutions

Answer :- b

2. When the supply for money increases and the demand for money reduces, there will be

- a) A fall in the level of prices
- b) A decrease in the rate of interest
- c) An increase in the rate of interest
- d) A fall in the level of demand

Answer :- b

3. If the interest rate decreases in an economy, it will

- a) Decrease the investment expenditure in the economy
- b) Increase the loan repayment by the government
- c) Increase the consumption expenditure in the economy
- d) Increase the total savings in the economy

Answer :- c

4. The cost of bank credit is determined on the basis of base rate and all bank loans are given at a rate equal to or higher than the base rate. Of the following, who determines this base rate?

- a) It is fixed by the Reserve Bank of India
- b) It is determined by the Ministry of Finance
- c) It is determined by market forces of supply and demand for credit.

d) It is determined by the bank concerned

Answer :- d

5. Consider the following statements regarding relation between marginal cost and average cost of lending, which one of the following statements is correct?

a) Average cost of lending is higher than marginal cost of lending.

b) For the first borrowing, average cost of lending and marginal cost of lending are equal.

c) Average cost of lending is lower than marginal cost of lending

d) Marginal cost of lending has no effect on average cost of lending

Answer :- b

6. When the Reserve Bank of India announces an increase in the cash reserve ratio, what does it mean?

- a) The commercial banks will have less money to lend.
- b) The union government will have less money to lend.
- c) The union government will have more money to lend.
- d) The commercial banks will have more money to lend.

Answer :- a

7. Which one of the following is not an instrument of selective credit control in India?

- a) Regulation of consumer credit
- b) Rationing of credit
- c) Margin requirement
- d) Reserve ratios

Answer :- d

8. Which agency has the foremost role in regulation of banking sector in India?

- a) Reserve Bank of India
- b) Union Finance Commission
- c) Union Ministry of Finance
- d) Union Ministry of Commerce

Answer :- a

9. Which of the following guidelines by the RBI does not hamper the profitability of commercial banks in India?

- a) Cash reserve ratio
- b) Statutory liquidity ratio
- c) Margin requirements
- d) Bank rate

Answer :- d

10. The banks are required to maintain a certain ratio between their liquid assets and total deposits. This ratio is called

- a) CRR (cash reserve ratio)
- b) SLR (statutory liquidity ratio)
- c) CAR (capital adequacy ratio)
- d) CLR (central liquid reserve)

Answer :- b

11. What is the implication of high bank rate in the economy?

- a) The most of credit charged by the banks to corporate borrowers reduces.
- b) Banks start lending at high rates to various types of borrowers.
- c) The demand for credit increases on account of rise in bank rate.

d) Commercial banks start borrowing more money from the Reserve Bank of India

Answer :- b

12. The accounting year of the Reserve Bank of India is

a) April-March

b) July-June

c) October-September

d) January-December

Answer :- b

13. Lending to which of the following sectors is not a part of priority sector lending?

a) Small-scale industry

b) Housing for poor

c) Allied activities to agriculture

d) Iron and Steel industry

Answer :- d

14. To finance its deficit, the government prefers borrowing from the public over the RBI. What can be the best reason for this?

- a) Rate of interest charged by the RBI is higher.
- b) The government has to return the sum to the RBI within a fixed period of time
- c) Public borrowing does not affect the money supply in the market
- d) It increases the sale of government bonds.

Answer :- c

15. Which of the following situations occurs during the period when borrowers and lenders expect inflation?

- a) The nominal rate of interest exceeds the real rate of interest
- b) The real rate of interest exceeds the nominal rate of interest

c) The nominal rate of interest equals the real rate of interest

d) Nominal and real rates of interest become zero

Answer :- a

16. What is “monetary base”?

a) The cash issued under the authority of the central bank

b) The money whose real value exceeds its nominal value

c) The currency with public and deposits maintained by the commercial banks with the Reserve Bank of India

d) None of the above

Answer :- c

17. Sterilization by the RBI is carried through:

a) Open market operation

- b) Reduction in bank rate
- c) Deficit financing operation
- d) Reduction in statutory liquidity ratio

Answer :- a

18. Which of the following is not included in the reserve money?

- a) Currency in circulation
- b) Banker's deposits with the RBI
- c) Government deposits with the RBI
- d) Demand deposit with banks

Answer :- d

19. What is bank rate?

- a) Rate on deposits given by commercial banks
- b) Rate charged by banks on loans and advances
- c) Rate payable on bonds

d) Rate at which the Reserve Bank of India discounts the bills of exchange

Answer :- d

20. Which of the following is/are the possible effects of introducing fresh currency?

Increase in money supply with the public

The rise in the nominal income of public

The fall in the general price level

Select the correct answer using the codes given below:

a) 1 only

b) 1 and 2 only

c) 2 only

d) 1, 2, and 3

Answer :- b

Monetary Policy

Objective Questions

21. Consider the following statements:

Repo rate is the rate at which the RBI lends money to commercial banks for a short period

Reverse repo rate is the rate which the RBI pays to commercial banks on short-term deposits

Repo is used to reduce liquidity in the economy, whereas reverse repo is used to increase liquidity in the economy

Which of the statements given above is/are not correct?

a) 1 only

b) 1 and 2 only

c) 3 only

d) 1,2, and 3

Answer :- c

22. Which of the following measures would result in an increase in the money supply in the economy?

Sale of government securities to the public by the central bank

Increase in the expenditure by the government

Reduction in tax collection by the government

Purchase of government securities from the public by the central bank

Select the correct answer using the codes given below:

a) 3 only

b) 2 and 4 only

c) 1 and 3

d) 2, 3 and 4

Answer :- d

23. With reference to marginal standing facility (MSF), consider the following statements.

It does not affect the value of currency as it is used for overnight transactions.

The purpose of marginal standing facility is to reduce volatility in the overnight lending rates in the inter-bank market

Marginal Standing Facility rate is generally lower than repo rate.

Which of the statements given above is /are correct?

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

Answer :- a

24. Broad money in India includes which of the following:

Currency with the public
Demand deposits with banks
Time deposits with banks

Other deposits with the RBI

Choose the correct answer using the codes given below:

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

Answer :- b

25. Consider the following statements regarding Reserve Bank of India :

It is a banker to the central government

It manages the money supply in the economy

It acts as a custodian of foreign exchange reserves of India

It handles the borrowing programme of the Government of India

Which of the statements given above are correct?

- a) 1 and 2

b) 2, 3 and 4

c) 1, 2, 3 and 4

d) 3 and 4

Answer :- c

26. Consider the following statements

The Reserve Bank of India decides the extent of borrowings permitted to the Government of India. The borrowing programme of the Government of India is administered by the Department of Revenue, Ministry of Finance

Which of the statements given above is/are correct?

a) 1 only

b) 2 only

c) Both 1 and 2

d) Neither 1 nor 2

Answer :- d

27. The currency notes in circulation as well as the proportion of the total money supply held in the form of currency are influenced by which of the following?

The trade volume in the economy

The level of prices in the economy

The development of banks and banking habits of the people

Select the correct answer using the codes given below:

a) 1 and 2 only

b) 2 and 3 only

c) 1, 2 and 3

d) 3 only

Answer :- c

28. With reference to currency deposit ratio, consider the following statements:

**It is the ratio of money held by the public in currency to that they hold in bank deposits.
An increase in the ratio decreases the money multiplier effect.**

Which of the statements given above is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

Answer :- c

29. Which of the following measures can be used to reduce inflation?

Increase in cash reserve ratio (CRR)

Increase in statutory liquidity ratio (SLR)

Increase in repo rate

Decrease in reverse repo rate

Select the correct answer using the codes given below:

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 3 and 4 only
- d) 1, 2, 3 and 4

Answer :- b

30. Consider the following pairs

Type of liquidity Ideal management technique

- 1. Short term (volatile) Repo auctions**
- 2. Medium term Open market operations**
- 3. Long term Cash reserve ratio**

Which of the pairs given above is/are correctly matched?

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

Answer :- d

31. Priority-section lending by banks in India constitutes lending to which of the following sectors?

Renewable energy

Education

Housing

Social infrastructure

Select the correct answer using the codes given below:

a) 1 and 4 only

b) 1, 2, and 3 only

c) 2, 3, and 4 only

d) 1, 2, 3 and 4

Answer :- d

32. Which of the following would have inflationary effect on the economy?

RBI releasing new bonds in the market

RBI decreasing the repo rate

RBI increasing the bank rate

Abolition of CRR

Select the correct answer using the codes given below

a) 1, 2 and 3 only

b) 1 and 4 only

c) 2 and 4 only

d) 3 and 4 only

Answer :- c