

# Chapter – Money and Banking

## Worksheet – 2

**Choose the correct option:**

1. This bank operates in public interest without any profit motive.
  - a. Reserve Bank of India
  - b. State Bank of India
  - c. Bank of Baroda
  - d. Punjab National Bank
  
2. Through the process of \_\_\_\_\_, commercial banks are able to create credit, which is in far excess of the initial deposits.
  - a. Advancing of loans.
  - b. Money Creation
  - c. Accepting Deposits
  - d. Credit Creation
  
3. What will be the effect of increase in the 'Repo Rate' on the money supply ?
  - a. Money supply will increase
  - b. Money supply will decrease
  - c. Money supply will remain same
  - d. Money supply will initially increase and then it will decrease.
  
4. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called:
  - a. Statutory liquidity ratio
  - b. Deposit ratio
  - c. Cash reserve ratio
  - d. Legal reserve ratio

5. Banks create credit:
  - a. Out of nothing
  - b. On the basis of their securities
  - c. On the basis of their total assets
  - d. On the basis of deposits

**Fill in the blank:**

1. \_\_\_\_\_ refers to buying and selling of government securities by the Central Bank from/to the public and commercial banks.
2. \_\_\_\_\_ is exact opposite of Repo Rate.
3. Bank Rate is also known as \_\_\_\_\_.
4. . Value of money Multiplier \_\_\_\_\_ ( increases/ decreases/ remains unchanged) with an increase in Cash Reserve Ratio.

**Match the correct pair:**

Match the statements given under A with the correct options given under B.

(A)	(B)
(i) Repurchase Rate	a. Rate at which RBI lends money to commercial banks to meet their short-term needs.
	b. Rate at which RBI lends money to commercial banks to meet their long-term needs.

**Answer the following Questions in short.**

1. State the role played by the central bank as the “lender of last resort”.
2. What are time deposits in banks?
3. Define Bank rate.

4. What will be the effect of a rise in the bank rate on money supply?
5. What is the meaning of open market operations?

**Answer the following Questions in long.**

1. How does a central bank influence credit creation by commercial banks through 'Open market operations'? Explain.
2. How is 'bank rate' used by central bank in influencing credit creation by commercial banks? Explain.
3. Describe any two methods by which Reserve Bank of India can regulate money supply.
4. Illustrate with the help of an hypothetical numerical example the process of credit creation.
5. Calculate the value of money multiplier and total deposit created if initial deposit is of ₹500 crores and LRR is 10%.

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