

Chapter – Money and Banking

Worksheet – 3

Choose the correct option:

1. Which of the following will increase the money supply?
 - a. Fall in repo rate
 - b. Sale of securities in open market
 - c. Decrease in cash reserve ratio
 - d. All of these

2. What is the other name for ‘Money Multiplier’?
 - a. Credit Multiplier
 - b. Deposit Multiplier
 - c. Cash Reserve Ratio
 - d. None of these

3. In order to reduce credit in the country, RBI may:
 - a. Buy securities in the open market
 - b. Sell securities in the Open market
 - c. Reduce cash reserve ratio
 - d. Increase Repo Rate

4. The one rupee note and coins are issued by:
 - a. RBI (central Bank)
 - b. Commercial Bank
 - c. Ministry of Finance
 - d. Central Government

Fill in the blank:

1. _____ bank has sole monopoly in issue of currency.
2. Money Multiplier = —.

3. Repo rate is applicable to _____ lending, while bank rate is applicable to _____ lending.
4. _____ is the policy adopted by the central Bank of an economy in the direction of credit control or money supply.

Match the correct pair:

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

(A)	(B)
(i) Cash Reserve Ratio	a. Minimum percentage of net demand and time liabilities which commercial banks are required to maintain with themselves.
(ii) Statutory Liquidity Ratio	b. Minimum percentage of net demand and time liabilities, to be kept by commercial banks with the central bank.

Answer the following Questions in short.

1. What is meant by legal reserve requirements?
2. What is meant by Cash Reserve Ratio?
3. What is meant by Statutory Liquidity Ratio?
4. What is meant by margin requirement?
5. What is Repo Rate?

Answer the following Questions in long.

1. If the total deposits created by commercial banks is ₹12,000 crores and legal reserve requirements is 25%, then calculate the amount of initial deposits.
2. Calculate the legal reserve requirements if initial deposit of ₹200 crores lead to creation of total deposits of ₹1,600 crores.
3. Distinguish between cash reserve ratio and statutory liquidity ratio.

4. Whether the following changes by the Reserve Bank will increase the money supply or decrease the money supply?
- (i) Rise in Repo rate.
 - (ii) Purchase of Securities in the open market.
 - (iii) RBI increases the margin from 20% to 30%.
 - (iv) RBI reduces the Cash reserve ratio.
5. The Reserve Bank of India aims to make the credit costly for the general public in order to reduce the availability of credit. What should be done?

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