

# Chapter – Money and Banking

## Worksheet – 6

**Choose the correct option:**

1. If the total deposits created by commercial banks is ₹10,000 crores and legal reserve requirements is 40%, then amount of initial deposits will be \_\_\_\_\_.
  - a. ₹2,000 crores
  - b. ₹3,000 crores
  - c. ₹4,000 crores
  - d. ₹14,000 crores
  
2. What is the value of money multiplier when initial deposits are ₹500 crores and LRR is 10%?
  - a. 0.1
  - b. 0.2
  - c. 10
  - d. 20
  
3. What happens where there is an increase in the margin requirements?
  - a. It reduces the borrowing capacity and money supply.
  - b. Encourage people to borrow more and money supply rises.
  - c. No change in money supply.
  - d. None of these
  
4. Which institution (s) performs the activity of credit creation?
  - a. Commercial Banks
  - b. Central Bank
  - c. Both (a) and (b)
  - d. Neither (a) nor (b)

5. The central bank can increase availability of credit by:
- Raising repo rate
  - Raising reverse repo rate
  - Buying government securities
  - Selling government securities

**State whether the sentence is true or false:**

- Increase in cash reserve ratio adversely affects the capacity of commercial banks to create credit.
- Commercial banks contribute to quantum of money supply in the economy as they do not have note-issuing authority.
- All financial institution can also be termed as banking institutions.
- Purchase of securities in the open market by the commercial banks reduces their credit creating power.
- Cash reserve ratio and statutory liquidity ratio are fixed by the commercial banks themselves.

**Answer the following Questions in short.**

- State the main functions of a Central Bank.
- State any three points of distinction between Central Bank and Commercial Banks.
- Explain the function of a Central Bank as a banker to the government.
- What are open market operations? What is their effect on availability of credit?
- Explain the 'lender of last resort' function of the Central Bank.

**Answer the following Questions in long.**

1. Do you consider a commercial bank ‘creator of money’ in the economy?
2. What role of RI is known as ‘lender of last resort’?

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