Chapter – Money and Banking

Worksheet – 7

Choose the correct option:

1. Which of these conditions is needed for a financial institution to become a bank?
   a. Accepting deposits
   b. Advancing Loans
   c. Both (a) and (b)
   d. Neither (a) nor (b)

2. ________ refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets.
   a. Cash Reserve Ratio
   b. Statutory Liquidity Ratio
   c. Bank Rate
   d. Repo Rate

3. Which of the following agency is responsible for issuing ₹1 currency note in India?
   a. Reserve Bank of India
   b. Ministry of Commerce
   c. Ministry of Finance
   d. Niti Aayog

4. Reserves Repo Rate is the rate at which Central Bank:
   a. Lends money to Commercial Banks for short-term
   b. Lends money to Commercial Banks for long-term
   c. Accepts Deposits from the Commercial Banks
   d. None of these

5. Credit Multiplier is equal to:

a. $\frac{1}{CRR}$

b. $\frac{1}{SLR}$

c. $\frac{1}{LRR}$

d. None of these

State whether the sentence is true or false:

1. Loans offered by commercial banks are equal to deposits received by them.
2. RBI acts as the banker to the central government and commercial banks act as banker to the state governments.
3. Size of money multiplier is given by the inverse of LRR.
4. To increase the money supply in the economy, central bank reduces the margin requirements.
5. Repo Rate is fixed by the Central Bank, whereas, Reverse Repo Rate is fixed by the Commercial Banks.

Answer the following Questions in short.

1. Explain Central Bank's function as currency authority.
2. Explain the 'banker's banks' and 'supervisor' function of the central bank.
3. Explain the effect of an increase in bank rate on credit creation by commercial banks.
4. Define cash reserve ratio and statutory liquidity ratio. How can they be used to control the situation of excess money supply?
5. Explain the following functions of the central bank:
   (i) Bank of issue;
   (ii) Banker's bank.