

Chapter – Money and Banking

Worksheet – 8

Choose the correct option:

1. The central bank can increase availability of credit by:
 - a. Raising repo rate
 - b. Raising reverse repo rate
 - c. Buying government securities
 - d. Selling government securities

2. Credit Multiplier is equal to:
 - a. $\frac{1}{CRR}$
 - b. $\frac{1}{SLR}$
 - c. $\frac{1}{LRR}$
 - d. None of these

3. Deposit Creation by banks comes to an end when:
 - a. Fresh Deposits with banks becomes zero
 - b. Legal Reserve Ratio becomes zero
 - c. Money Multiplier becomes zero
 - d. Total Cash Reserves becomes equal to Initial Deposits

4. If an economy is to control credit, which of the following can be appropriate:
 - a. Reducing Repo Rate
 - b. Reducing Cash Reserve Ratio
 - c. Both (a) and (b)
 - d. None of these

5. Demand deposits include (Choose the correct alternative):
- Saving account deposits and fixed deposits
 - Saving account deposits and current account deposits
 - Current account deposits and fixed deposits
 - All types of deposits
6. Repo rate is the rate at which:
- Commercial Banks purchase government securities from the central bank
 - Commercial Banks can take loans from the central bank
 - Commercial Banks can keep their deposits with the central bank
 - Short-term loans are given by commercial banks
7. Which of the following is not a Quantitative Method of Credit Control?
- Open Market Operation
 - Margin Requirements
 - Variable Reserve Ratio
 - Bank Rate Policy
8. Credit creation by commercial banks is determined by:
- Cash Reserve Ratio (CRR)
 - Statutory Liquidity Ratio (SLR)
 - Initial Deposits
 - All of the above
9. In order to encourage investment in the economy, the central Bank may _____.
- Reduce Cash Reserve Ratio
 - Increase Cash Reserve Ratio
 - Sell Government securities in open market
 - Increase Bank Rate

10. If legal reserve ratio is 20%, the value of money multiplier would be _____. (Choose the correct alternative).

- a. 2
- b. 3
- c. 5
- d. 4

11. Repo rate relates to _____ (choose the correct alternative).

- a. Short-term borrowings by commercial banks
- b. Long-term borrowing by commercial banks
- c. Disinvestments
- d. Dissavings

Answer the following Questions in short.

1. Calculate the total deposit created by commercial banks if reserve ratio is 10% and primary deposit is ₹1,250 crores.
2. If total deposit created by commercial banks is ₹20,000 crores and the primary deposit is ₹2,500 crores, what is the value of money multiplier and reserve ratio?
3. Explain the components of Legal Reserve Ratio.
4. Explain the distinction between 'Statutory liquidity ratio' and 'Legal reserve ratio'.
5. Explain any two methods of credit control used by central bank.
6. What is legal Reserve Ratio? Explain its components.
7. What is Repo rate policy? How does it work as a method of credit control?
8. Explain the 'currency authority' function of central bank.
9. Explain the role of Reverse Repo Rate in controlling credit creation.

- 10.** How the following tools can be used for credit control by the central bank in an economy.
 - (a) Open Market Operations;
 - (b) Margin Requirements
- 11.** Explain how 'Repo Rate' can be helpful in controlling credit creation.
- 12.** Explain the role of Cash Reserve Ratio in controlling credit creation.
- 13.** Explain the "Varying reserve requirements" method of credit control by the central bank.
- 14.** If Legal Reserve Ratio is 0.2 and new deposits are ₹1,000 explain the process of money creation by the commercial banks.
- 15.** Explain the role of statutory liquidity ratio in increasing money supply.

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