

CHAPTER-3 | Money and Credit

QUIZ
PART-01

1. What is the main function of money as a medium of exchange?
- A. Acts as a store of grains
 - B. Helps in making payments and transactions
 - C. Increases production
 - D. Eliminates taxes (B)

Explanation: Money simplifies transactions and serves as a common medium between buyers and sellers.

2. Which feature is essential for a barter system to work?
- A. Use of currency
 - B. Double coincidence of wants
 - C. Banking facilities
 - D. Legal tender laws (B)

Explanation: Barter system requires that both parties want what the other has, known as double coincidence of wants.

3. Which of the following is NOT a modern form of money?
- A. Coins
 - B. Demand deposits
 - C. Paper currency
 - D. Precious metals (D)

Explanation: Precious metals like gold and silver are not considered modern forms of money.

4. Which institution issues currency notes in India?
- A. State Bank of India
 - B. Reserve Bank of India
 - C. Union Bank of India
 - D. Indian Government (B)

Explanation: Reserve Bank of India is the only institution authorized to issue currency in India.

5. What does "legal tender" mean?
- A. Gold reserve
 - B. Currency that must be accepted for payments
 - C. Price control
 - D. Government loan (B)

Explanation: Legal tender refers to money that must be accepted in transactions and debt payments.

6. What advantage do demand deposits offer to bank customers?
- A. Cannot be withdrawn
 - B. Used only for saving
 - C. Can be withdrawn anytime and earn interest
 - D. Locked for 5 years (C)

Explanation: Demand deposits can be withdrawn on demand and banks also pay interest on them.

7. What does a cheque instruct the bank to do?
- A. Issue a loan
 - B. Deposit gold
 - C. Transfer a specified amount from one account to another
 - D. Block the account (C)

Explanation: A cheque is a written order directing the bank to pay a certain amount to another person or account.

8. What was a major limitation of the barter system?
- A. Banking network
 - B. Storage of grains
 - C. Need for double coincidence of wants
 - D. Use of metal coins (C)

Explanation: Barter system failed when both parties didn't need what the other was offering.

9. What are modern forms of money backed by?
- A. Gold and Silver
 - B. Reserve Bank and Government authority
 - C. Private banks
 - D. Foreign exchange only (B)

Explanation: Modern money like currency is issued by the Reserve Bank and authorized by the government.

10. Which of the following is an example of a demand deposit?
- A. Fixed deposit
 - B. Gold locker
 - C. Savings account balance
 - D. Loan account (C)

Explanation: Savings account balances can be withdrawn anytime and are considered demand deposits.