

CHAPTER-3 | Money and Banking

QUIZ
PART-02

1. Which of the following is a primary function of a commercial bank?
- To provide loans to the government
 - To act as a custodian of gold reserves
 - To regulate the money supply in the economy
 - To accept deposits and provide loans to the public (D)

Explanation: The primary functions of commercial banks are accepting deposits and advancing loans to the public.

2. What is the compulsory amount of deposits that a commercial bank has to keep as reserves called?
- Money Multiplier
 - Fractional Reserve Requirement
 - Legal Reserve Ratio
 - None of the above (C)

Explanation: Legal Reserve Ratio (LRR) is the proportion of deposits that banks must compulsorily hold as reserves.

3. What does the money multiplier signify?
- Amount of credit creation possible from deposits
 - Amount of loan given by commercial bank to government
 - Amount of deposits with commercial bank
 - None of the above (A)

Explanation: The money multiplier shows how much total deposit creation is possible from an initial deposit.

4. If the Legal Reserve Ratio (LRR) is 20% (0.2), what is the value of the money multiplier?
- 2
 - 3
 - 4
 - 5 (D)

Explanation: Money Multiplier = $1 \div \text{LRR} = 1 \div 0.2 = 5$.

5. If the initial deposit is ₹1,000 crores and LRR is 12.5%, what is the total deposit created?
- ₹5,000 crores
 - ₹6,000 crores
 - ₹7,500 crores
 - ₹8,000 crores (C)

Explanation: Money Multiplier = $1 \div 0.125 = 8$. Total Deposit = Initial Deposit \times Multiplier = $1,000 \times 8 = ₹8,000$ crores.

6. Which of the following is not a secondary function of commercial banks?
- Overdraft Facility
 - Discounting Bills of Exchange
 - Locker Facility
 - Production of Goods (D)

Explanation: Production of goods is not a banking function, while overdraft, discounting, and locker services are secondary functions.

7. Which of the following deposits is non-chequeable but carries interest?
- Demand Deposit
 - Savings Deposit
 - Fixed Deposit
 - Current Deposit (C)

Explanation: Fixed deposits are non-chequeable and earn interest that varies with the time period.

8. In the process of credit creation, why does deposit creation stop eventually?
- Because demand deposits exceed supply
 - Because total cash reserves equal the initial deposit
 - Because loans exceed reserves
 - Because deposits become zero (B)

Explanation: Deposit creation continues until cumulative reserves equal the initial deposit amount.

9. Which function of commercial banks involves services like fund transfers, purchase and sale of securities?
- General Utility Functions
 - Agency Functions
 - Overdraft Facility
 - Credit Creation (B)

Explanation: Agency functions include services like payment collection, transfers, and securities trading.

10. Which of the following is inversely related to the Legal Reserve Ratio (LRR)?
- Money Supply
 - Deposits
 - Money Multiplier
 - Loans (C)

Explanation: The money multiplier decreases as LRR increases, showing an inverse relationship.