

## CHAPTER-3 | Money and Credit

QUIZ  
PART-02

1. What do banks do with the majority of the deposits they receive?
- A. Lock them in vaults
  - B. Give them as gifts
  - C. Use them to provide loans
  - D. Send them to RBI (C)

**Explanation:** Banks use a major portion of public deposits to offer loans and generate income through interest.

2. What is the difference between interest charged on loans and paid on deposits called?
- A. Service Tax
  - B. Profit Margin
  - C. Interest Rate Spread
  - D. Deposit Fee (C)

**Explanation:** Banks earn by charging a higher interest on loans than they pay on deposits, known as Interest Rate Spread.

3. What is collateral?
- A. Bank's guarantee to the borrower
  - B. An amount deducted from the loan
  - C. An asset pledged by the borrower as security
  - D. Extra interest on the loan (C)

**Explanation:** Collateral is an asset (like land, house, etc.) that a borrower offers as security for repayment of a loan.

4. Which of the following is NOT a term of credit?
- A. Collateral
  - B. Interest Rate
  - C. Mode of Repayment
  - D. Bank Deposits (D)

**Explanation:** Bank deposits are not part of loan agreements; credit terms include collateral, interest, and repayment details.

5. What is the main demand for credit in rural areas?
- A. Buying cars
  - B. Marriage expenses
  - C. Crop production
  - D. House construction (C)

**Explanation:** In rural areas, the major use of credit is for purchasing agricultural inputs for crop production.

6. What happens in a debt trap?
- A. The borrower becomes debt-free
  - B. The borrower earns a profit
  - C. The borrower cannot repay the loan and falls into repeated borrowing
  - D. The bank cancels the loan (C)

**Explanation:** A debt trap is a situation where the borrower cannot repay the loan and must take further loans.

7. Which is an example of a positive impact of credit?
- A. Losing land to the bank
  - B. Crop failure
  - C. Increased income after business investment
  - D. Falling into multiple debts (C)

**Explanation:** When credit is used productively, such as in expanding a business, it increases income.

8. What is the purpose of keeping a cash reserve by banks?
- A. To increase profits
  - B. To meet daily withdrawal needs of depositors
  - C. To pay taxes
  - D. To invest in gold (B)

**Explanation:** Banks keep a part of the deposits as reserve to meet the cash needs of depositors.

9. Why is repayment of a crop loan risky?
- A. Bank policies change
  - B. Harvest always fails
  - C. Repayment depends on farming income
  - D. Interest rates are too low (C)

**Explanation:** Crop loan repayment depends on a successful harvest; if crops fail, repayment becomes difficult.

10. What happens if the borrower fails to repay the loan?
- A. Loan is cancelled
  - B. Lender takes away collateral
  - C. Borrower is given a bonus
  - D. Loan is forgotten (B)

**Explanation:** If a loan is not repaid, the lender has the right to sell the collateral to recover the loan amount.