CHAPTER-3 | Money and Banking

QUIZ PART-04

1. **Which of the following is a major drawback of the Barter System?**
   A. Easy store of value
   B. Double Coincidence of Wants
   C. Government intervention
   D. Unlimited supply of money (B)

Explanation : The Barter System fails because it requires double coincidence of wants, which is often difficult to achieve.

2. **Which of the following is not a main function of money?**
   A. Medium of Exchange
   B. Store of Value
   C. Measure of Value
   D. Production of Goods (D)

Explanation: Money serves as medium, measure, store, and standard of deferred payments, but it does not directly produce goods.

3. **Transaction demand for money refers to:**
   A. Money held for future investments
   B. Money held for emergencies only
   C. Money held to facilitate everyday purchases
   D. Money held for savings accounts (C)

Explanation: Transaction demand is the amount of money people keep to meet daily transactions like buying goods and services.

4. **Which of the following is included in M1 money supply in India?**
   A. Currency with public + Demand deposits + Other deposits with RBI
   B. Currency with public + Time deposits
   C. Currency with government + Gold reserves
   D. Net Time Deposits with banks (A)

Explanation : M1 includes currency and coins with public, demand deposits of commercial banks, and other deposits with RBI.

5. **Which of the following best describes Fiat Money?**
   A. Money backed by gold
   B. Money with intrinsic value
   C. Money accepted under government order
   D. Commodity money (C)

Explanation: Fiat money is money declared by the government as legal tender, even without intrinsic value.

6. **High Powered Money consists of:**
   A. Only government expenditure
   B. Only reserves with commercial banks
   C. Currency with the public and reserves of commercial banks
   D. Net exports of a country (C)

Explanation: High Powered Money = Currency held by public + Reserves with central bank (both required and excess reserves).

7. **Which of the following is a secondary function of commercial banks?**
   A. Accepting Deposits
   B. Advancing Loans
   C. Overdraft Facility and Discounting Bills
   D. Money Creation (C)

Explanation: Secondary functions include overdraft facility, discounting bills, agency services, and locker facility.

8. **The Money Multiplier is defined as:**
   A. 1 ÷ Legal Reserve Ratio (LRR)
   B. 1 ÷ Cash Reserve Ratio (CRR)
   C. LRR ÷ Reserves
   D. Initial Deposit × LRR (A)

Explanation: Money Multiplier = 1 ÷ LRR, showing the multiple expansion of deposits from an initial deposit.

9. **Which of the following is a quantitative instrument of monetary policy?**
   A. Margin Requirements
   B. Moral Suasion
   C. Selective Credit Control
   D. Repo Rate Policy (D)

Explanation: Quantitative instruments include bank rate, repo, reverse repo, open market operations, and reserve requirements.

10. **The role of RBI as “lender of last resort” means:**
    A. Providing credit to all commercial banks regularly
    B. Providing emergency liquidity to banks during crisis
    C. Providing loans to government departments only
    D. Financing exports during foreign trade crisis (B)

Explanation : RBI acts as lender of last resort by supplying emergency funds to banks facing liquidity issues to prevent financial collapse.