CHAPTER-3 | Money and Banking

QUIZ PART-03

1. **Which institution is the apex body that regulates and directs the entire banking system of a country?**
   A. Commercial Bank
   B. Ministry of Finance
   C. Central Bank
   D. Stock Exchange (C)

Explanation : The Central Bank is the apex institution that regulates and directs the entire banking and monetary structure of a country (RBI in India).

2. **When was the Reserve Bank of India (RBI) established?**
   A. 1930
   B. 1935
   C. 1947
   D. 1950 (B)

Explanation: The Reserve Bank of India, India's central bank, was established on 1st April 1935.

3. **Which institution has the sole authority to issue currency in India, except coins and ₹1 notes?**
   A. Ministry of Finance
   B. Reserve Bank of India
   C. State Bank of India
   D. Commercial Banks (B)

Explanation: RBI issues paper currency notes in India, except coins and ₹1 notes issued by the Ministry of Finance.

4. **In its role as "Banker to the Government," the RBI does all of the following except:**
   A. Provides loans and advances to the government
   B. Manages public debt
   C. Provides overdraft facility to individuals
   D. Maintains current accounts for cash balances (C)

Explanation : RBI acts as a banker, agent, and advisor to the government, but does not provide overdraft to individuals.

5. **Which of the following is a quantitative instrument of credit control?**
   A. Margin Requirements
   B. Selective Credit Control
   C. Moral Suasion
   D. Bank Rate Policy (D)

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

6. **Which of the following is a qualitative instrument of credit control?**
   A. Repo Rate
   B. Moral Suasion
   C. Cash Reserve Ratio
   D. Statutory Liquidity Ratio (B)

Explanation: Qualitative instruments like Moral Suasion influence lending for specific sectors, unlike quantitative controls.

7. **The rate at which RBI provides long-term loans to commercial banks without collateral is called:**
   A. Repo Rate B. Reverse Repo Rate
   C. Bank Rate D. Lending Rate (C)

Explanation: Bank Rate is the rate at which RBI lends to commercial banks for long-term needs without collateral.

8. **The difference between the value of collateral and the value of loan granted is termed as:**
   A. Credit Spread
   B. Risk Premium
   C. Margin Requirement
   D. Open Market Operation (C)

Explanation: Margin Requirement is the gap between collateral's value and the loan granted, adjusted to regulate credit.

9. **When RBI sells government securities in the open market, the money supply:**
   A. Increases
   B. Decreases
   C. Remains constant
   D. Becomes zero (B)

Explanation: Selling securities absorbs money from the market, reducing money supply, usually to control inflation.

10. **Which is the correct difference between Central Bank and Commercial Bank?**
    A. Central Bank operates for profit; Commercial Bank works in public interest
    B. Central Bank issues currency; Commercial Banks cannot
    C. Central Bank deals directly with public; Commercial Banks do not
    D. Central Bank is private; Commercial Banks are government-owned only (B)

Explanation : The Central Bank has the monopoly of issuing currency, while commercial banks accept deposits and give loans.