

## Chapter – 3 | Money And Banking

## QUIZ-01

1. What is the primary function of money in a modern economy?

- A. Source of revenue
- B. Medium of exchange
- C. Store of labor
- D. Measure of wealth (B)

**Explanation :** Money facilitates transactions as a commonly accepted medium of exchange.

2. Which of the following is NOT a function of money?

- A. Unit of account
- B. Store of value
- C. Medium of exchange
- D. Means of production (D)

**Explanation :** Money is not used directly as a means of production.

3. What does CRR stand for?

- A. Central Reserve Revenue
- B. Cash Reserve Ratio
- C. Commercial Rate of Return
- D. Credit Regulation Ratio (B)

**Explanation :** CRR stands for Cash Reserve Ratio – the percentage of deposits banks must hold as reserves.

4. Which among the following best defines a 'liquidity trap'?

- A. High CRR in economy
- B. Increase in inflation
- C. When interest rates are low and people hoard money
- D. Banks stop lending (C)

**Explanation :** In a liquidity trap, interest rates are low and people prefer to hold cash instead of investing.

5. What is meant by 'high-powered money'?

- A. Money used by government only
- B. Currency issued by commercial banks

- C. Currency and reserves issued by the central bank
- D. Digital currency only (C)

**Explanation :** High-powered money is currency issued by the central bank and held by public and banks.

6. What is the 'money multiplier' in context of credit creation?

- A. Total interest rate in banking
- B. The ratio of total deposits to reserves
- C. Total money supply in GDP
- D. Cash to currency ratio (B)

**Explanation :** Money multiplier = Total Deposits / Reserves; it shows how much money is created from reserves.

7. Which tool is a qualitative method of monetary policy?

- A. Bank Rate
- B. CRR
- C. Open Market Operations
- D. Moral Suasion (D)

**Explanation :** Moral suasion is a qualitative tool used by RBI to influence credit decisions of banks.

8. What happens when RBI increases the repo rate?

- A. Lending increases
- B. Borrowing from RBI becomes costlier
- C. Inflation rises
- D. More money is created (B)

**Explanation :** When repo rate increases, borrowing from RBI becomes costlier for commercial banks.

9. What type of money are currency notes and coins called?

- A. Speculative money
- B. Time deposits
- C. Fiat money
- D. Liquid bonds (C)

**Explanation :** Currency notes and coins are fiat money as their value is based on government guarantee.

10. What does M1 include in money supply?

- A. Time deposits only
- B. Currency and demand deposits
- C. Currency and fixed deposits
- D. Bonds and treasury bills (B)

**Explanation :** M1 includes currency with public and demand deposits with banks.