



BUDDHA SERIES

(Unit Wise Solved Question & Answers)

Course – B.Com 5th Sem

College – Buddha Degree College

(DDU Code-859)

Department: Commerce

Subject: Monetary Theory and Banking in India -1

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Unit -I

1. Which of the following is not a function of money?

- a) Medium of exchange
- b) Store of value
- c) Unit of account
- d) Capital formation

2. Money acts as a standard of deferred payment. This means:

- a) It facilitates future payments
- b) It measures inflation
- c) It stores physical assets
- d) It converts goods into capital

3. Which of the following is the broadest measure of money supply in India?

- a) M1
- b) M2
- c) M3
- d) M4

4. Which component is included in M1 but not in M0?

- a) Currency in circulation
- b) Bankers' deposits with RBI
- c) Demand deposits with banks
- d) Cash reserves

5. The narrow money is represented by:

- a) M0
- b) M1
- c) M3
- d) M4

6. Which of the following is not included in M1?

- a) Currency with the public
- b) Demand deposits
- c) Time deposits
- d) Other deposits with RBI

7. M3 includes which of the following components?

- a) Currency with the public and demand deposits only
- b) M1 + Time deposits with banks
- c) M2 + Time deposits
- d) M1 + Fixed deposits with RBI

8. Time deposits are considered a part of:

- a) M1
- b) M2
- c) M3
- d) None of the above

9. The most liquid form of money is:

- a) Fixed deposits
- b) Savings deposits
- c) Currency notes
- d) Post office savings

10. M4 includes:

- a) M3 + Total Post Office Savings
- b) M3 + Fixed Deposits
- c) M2 + Time Deposits
- d) M1 + Banker's deposits

11. The function of money as a 'store of value' means:

- a) It helps in transaction
- b) It maintains value over time
- c) It is used for foreign exchange
- d) It is used only by banks

12. Which of the following is not considered high-powered money?

- a) Currency with public
- b) Banker's deposits with RBI
- c) Demand deposits
- d) Cash reserves with RBI

13. M0 is also referred to as:

- a) Base Money
- b) Broad Money
- c) Money Multiplier
- d) Liquid Cash

14. Money supply in India is measured and published by:

- a) SEBI
- b) NABARD
- c) RBI
- d) Ministry of Finance

15. Which of the following is not a component of M3?

- a) Currency with public
- b) Demand deposits
- c) Banker's deposits with RBI
- d) Time deposits

16. The changing importance of M3 over time indicates:

- a) Growth in real sector
- b) Shift towards time deposits
- c) Reduction in money demand
- d) Decrease in inflation

17. Which of the following has the highest liquidity?

- a) Term deposits
- b) Treasury bills
- c) Currency
- d) Gold

18. Broad money is important in analyzing:

- a) Daily banking operations
- b) International trade
- c) Inflation and monetary policy
- d) Legal tender

19. In India, the concept of 'money supply' is based on:

- a) Keynesian economics
- b) Fisher's quantity theory
- c) Balance of payments
- d) Banking practices

20. What is the main difference between M1 and M3?

- a) Presence of savings deposits
- b) Inclusion of time deposits in M3
- c) Inclusion of post office savings
- d) Exclusion of demand deposits

21. Which form of money is known as fiat money?

- a) Gold coins
- b) Barter items
- c) Legal tender issued by the government
- d) Shares and bonds

22. Which of the following does not affect money supply directly?

- a) Repo rate
- b) Bank rate
- c) SLR
- d) Fiscal deficit

23. Which component has increased significantly in recent years in India's money supply?

- a) Currency with the public
- b) Demand deposits

- c) Time deposits
- d) Bank reserves

24. M2 includes which of the following?

- a) M1 + Post Office Savings (excluding RD)
- b) M1 + Time Deposits
- c) M3 + Banker's Reserves
- d) M1 + Gold Reserves

25. Which money measure reflects the purchasing power held by the public at a point in time?

- a) M0
- b) M1
- c) M3
- d) All of the above

Answers

1. **d)** Capital formation
2. **a)** It facilitates future payments
3. **d)** M4
4. **c)** Demand deposits with banks
5. **b)** M1
6. **c)** Time deposits
7. **b)** M1 + Time deposits with banks
8. **c)** M3
9. **c)** Currency notes
10. **a)** M3 + Total Post Office Savings
11. **b)** It maintains value over time
12. **c)** Demand deposits
13. **a)** Base Money
14. **c)** RBI
15. **c)** Banker's deposits with RBI
16. **b)** Shift towards time deposits
17. **c)** Currency
18. **c)** Inflation and monetary policy
19. **d)** Banking practices
20. **b)** Inclusion of time deposits in M3
21. **c)** Legal tender issued by the government
22. **d)** Fiscal deficit
23. **c)** Time deposits
24. **a)** M1 + Post Office Savings (excluding RD)
25. **d)** All of the above

Unit – II

1. **High Powered Money is also known as:**
 - a) Narrow Money
 - b) Reserve Money
 - c) Broad Money
 - d) Base Demand
2. **Which of the following is included in High Powered Money (HPM)?**
 - a) Only currency with the public
 - b) Only time deposits
 - c) Currency with public + Banker's deposits with RBI + Cash reserves
 - d) Only demand deposits
3. **Which institution is the primary creator of High Powered Money?**
 - a) Commercial Banks
 - b) Ministry of Finance
 - c) Reserve Bank of India
 - d) State Bank of India
4. **Which of the following is not a use of High Powered Money?**
 - a) Meeting CRR requirements
 - b) Supporting currency circulation
 - c) Creating time deposits
 - d) Controlling inflation
5. **What does HPM primarily control in the economy?**
 - a) Foreign investment
 - b) Stock market
 - c) Money supply
 - d) Direct taxes
6. **Which component is not part of High Powered Money?**
 - a) Currency held by public
 - b) Vault cash of commercial banks
 - c) Banker's deposits with RBI
 - d) Time deposits with commercial banks
7. **A major source of increase in High Powered Money is:**
 - a) Taxation
 - b) Government borrowing from the public
 - c) RBI credit to the government
 - d) Capital investment
8. **Which of the following affects High Powered Money directly?**
 - a) Inflation rate
 - b) Cash Reserve Ratio
 - c) RBI's open market operations
 - d) Public expenditure
9. **RBI increases high powered money through:**
 - a) Fiscal policy
 - b) Monetary policy tools like repo operations

- c) State government taxes
- d) Market regulation

10. Which is not a source of change in High Powered Money?

- a) RBI's lending to government
- b) Changes in foreign exchange reserves
- c) Increase in time deposits
- d) RBI's lending to banks

11. Which of the following is a component of the financial system?

- a) Political system
- b) Education system
- c) Financial institutions
- d) Legal institutions

12. Which is the most basic function of a financial system?

- a) Tax collection
- b) Money creation
- c) Mobilizing savings and allocating credit
- d) Regulating industries

13. Which of the following is a financial intermediary?

- a) Income Tax Department
- b) RBI
- c) Commercial Bank
- d) SEBI

14. Financial Intermediaries are important because they:

- a) Manufacture goods
- b) Facilitate capital formation
- c) Collect taxes
- d) Maintain law and order

15. Which of the following is not a financial intermediary?

- a) LIC
- b) UTI
- c) IRDAI
- d) Mutual Fund

16. The Indian financial system does not include:

- a) Financial markets
- b) Financial instruments
- c) Meteorological departments
- d) Financial institutions

17. Which is an example of a non-banking financial intermediary?

- a) RBI
- b) SIDBI
- c) Commercial bank
- d) Cooperative bank

18. Which financial intermediary deals primarily in insurance?

- a) SEBI
- b) LIC

- c) NABARD
- d) RBI

20. Development Financial Institutions (DFIs) mainly serve:

- a) Daily transactions
- b) Long-term industrial finance
- c) Foreign exchange
- d) Budget formulation

21. Which financial institution regulates stock exchanges in India?

- a) RBI
- b) IRDAI
- c) SEBI
- d) NABARD

21. The financial market where short-term instruments are traded is called:

- a) Capital market
- b) Commodity market
- c) Money market
- d) Forex market

22. Treasury bills are part of the:

- a) Capital market
- b) Money market
- c) Derivatives market
- d) Informal market

23. The key role of mutual funds as intermediaries is to:

- a) Accept deposits
- b) Invest pooled savings in capital market
- c) Issue currency
- d) Provide insurance

24. Primary market is related to:

- a) Secondary trading of securities
- b) New issue of shares
- c) Mutual fund schemes
- d) Debt recovery

25. Financial intermediaries help in:

- a) Inflation control
- b) Direct transfer of funds from savers to borrowers
- c) Currency printing
- d) Auditing government accounts

Answers

1. **b) Reserve Money**
2. **c) Currency with public + Banker's deposits with RBI + Cash reserves**
3. **c) Reserve Bank of India**
4. **c) Creating time deposits**
5. **c) Money supply**
6. **d) Time deposits with commercial banks**
7. **c) RBI credit to the government**

8. **c)** RBI's open market operations
9. **b)** Monetary policy tools like repo operations
10. **c)** Increase in time deposits

11. **c)** Financial institutions
12. **c)** Mobilizing savings and allocating credit
13. **c)** Commercial Bank
14. **b)** Facilitate capital formation
15. **c)** IRDAI
16. **c)** Meteorological departments
17. **b)** SIDBI
18. **b)** LIC
19. **b)** Long-term industrial finance
20. **c)** SEBI
21. **c)** Money market
22. **b)** Money market
23. **b)** Invest pooled savings in capital market
24. **b)** New issue of shares
25. **b)** Direct transfer of funds from savers to borrowers

Unit – III

1. **Which of the following best defines a bank?**
 - a) A company that invests in real estate
 - b) An institution that accepts deposits and grants loans
 - c) A firm that regulates stock markets
 - d) A body that prepares government budgets
2. **Which of the following is a primary function of commercial banks?**
 - a) Providing subsidies
 - b) Accepting deposits and granting loans
 - c) Imposing taxes
 - d) Regulating currency
3. **Which bank is known as the apex institution of India's banking system?**
 - a) State Bank of India
 - b) Reserve Bank of India
 - c) Punjab National Bank
 - d) NABARD
4. **Which of these is not a function of commercial banks?**
 - a) Credit creation
 - b) Currency issuance
 - c) Accepting deposits
 - d) Granting loans
5. **Scheduled banks are listed in which schedule of the RBI Act?**
 - a) First
 - b) Second
 - c) Third
 - d) Fourth
6. **The largest public sector bank in India is:**
 - a) Bank of Baroda
 - b) Punjab National Bank
 - c) ICICI Bank
 - d) State Bank of India
7. **Which of the following is a secondary function of commercial banks?**
 - a) Accepting demand deposits
 - b) Discounting bills of exchange
 - c) Providing lockers
 - d) Granting loans
8. **Which bank was nationalized in 1969?**
 - a) HDFC Bank
 - b) Axis Bank
 - c) Bank of India
 - d) Bandhan Bank
9. **Which of the following is not a type of commercial bank in India?**
 - a) Public sector bank
 - b) Private sector bank

- c) Co-operative bank
- d) Postal bank

10. The main source of income for commercial banks is:

- a) Service tax
- b) Interest on loans
- c) Deposits
- d) Foreign aid

11. Which of the following is a public sector bank?

- a) HDFC Bank
- b) Axis Bank
- c) Bank of Baroda
- d) Kotak Mahindra Bank

12. Which of these is a function of the Reserve Bank of India but not of commercial banks?

- a) Providing lockers
- b) Currency issuance
- c) Accepting deposits
- d) Offering loans

13. Commercial banks create credit by:

- a) Printing money
- b) Creating digital currency
- c) Issuing shares
- d) Lending more than the cash reserves

14. Which committee recommended the restructuring of Indian banking in 1991?

- a) Malhotra Committee
- b) Narasimha Committee
- c) Rangarajan Committee
- d) Kelkar Committee

15. Which bank type is primarily rural and agricultural in focus?

- a) Cooperative Bank
- b) Regional Rural Bank
- c) Private Bank
- d) Foreign Bank

16. Which bank was merged with SBI in 2017?

- a) ICICI Bank
- b) UCO Bank
- c) State Bank of Bikaner & Jaipur
- d) Yes Bank

17. The structure of commercial banks in India does not include:

- a) Foreign banks
- b) Regional Rural Banks
- c) Cooperative banks
- d) Central banks

18. Which of the following is not a role of commercial banks in economic development?

- a) Providing credit to agriculture and industries
- b) Promoting savings

- c) Implementing monetary policy
- d) Mobilizing capital

19. **Commercial banks are regulated in India by:**

- a) Ministry of Finance
- b) SEBI
- c) Reserve Bank of India
- d) NITI Aayog

20. **Which bank is not a private sector bank?**

- a) ICICI Bank
- b) HDFC Bank
- c) Bank of India
- d) Axis Bank

21. **Which of the following is a function of commercial banks?**

- a) Currency printing
- b) Tax collection
- c) Credit creation
- d) Formulating fiscal policy

22. **When were 14 major commercial banks nationalized in India?**

- a) 1949
- b) 1955
- c) 1969
- d) 1980

23. **Which of the following banks is headquartered in Mumbai?**

- a) Canara Bank
- b) Punjab National Bank
- c) Bank of Baroda
- d) ICICI Bank

24. **Which bank can operate across national borders?**

- a) Regional Rural Bank
- b) Foreign Bank
- c) Cooperative Bank
- d) State Cooperative Bank

25. **Which of these services is commonly offered by commercial banks?**

- a) Issuing currency notes
- b) Collection of cheques
- c) Levying customs duty
- d) Conducting elections

Answers

- a. **b)** An institution that accepts deposits and grants loans
- b. **b)** Accepting deposits and granting loans
- c. **b)** Reserve Bank of India
- d. **b)** Currency issuance
- e. **b)** Second
- f. **d)** State Bank of India
- g. **c)** Providing lockers
- h. **c)** Bank of India

- i. **d)** Postal bank
- j. **b)** Interest on loans
- k. **c)** Bank of Baroda
- l. **b)** Currency issuance
- m. **d)** Lending more than the cash reserves
- n. **b)** Narasimham Committee
- o. **b)** Regional Rural Bank
- p. **c)** State Bank of Bikaner & Jaipur
- q. **d)** Central banks
- r. **c)** Implementing monetary policy
- s. **c)** Reserve Bank of India
- t. **c)** Bank of India
- u. **c)** Credit creation
- v. **c)** 1969
- w. **d)** ICICI Bank
- x. **b)** Foreign Bank
- y. **b)** Collection of cheques

Unit – IV

1. **When were Regional Rural Banks (RRBs) first established in India?**
 - a) 1956
 - b) 1969
 - c) 1975
 - d) 1991
2. **The main objective of RRBs is to provide credit to:**
 - a) Urban industries
 - b) Rural poor and farmers
 - c) Foreign investors
 - d) Public sector undertakings
3. **Which of the following institutions sponsors RRBs?**
 - a) NABARD
 - b) SEBI
 - c) Ministry of Finance
 - d) RBI
4. **RRBs are jointly owned by:**
 - a) Central Govt, State Govt, RBI
 - b) Central Govt, State Govt, and Sponsor Bank
 - c) RBI, NABARD, and Commercial Bank
 - d) RBI, SEBI, and Sponsor Bank
5. **RRBs operate primarily in:**
 - a) Urban areas
 - b) Metro cities
 - c) Rural and semi-urban areas
 - d) Export zones
6. **Cooperative banks in India operate under the principles of:**
 - a) Profit maximization
 - b) Cooperative credit
 - c) Central planning
 - d) Fiscal policy
7. **Which of the following is not a type of cooperative bank?**
 - a) State Cooperative Bank
 - b) District Central Cooperative Bank
 - c) Urban Cooperative Bank
 - d) Merchant Cooperative Bank
8. **Which of the following regulates cooperative banks?**
 - a) SEBI
 - b) IRDAI
 - c) RBI and State Governments
 - d) NITI Aayog
9. **Urban Cooperative Banks cater to the needs of:**
 - a) Rural farmers
 - b) Industrialists
 - c) Urban and semi-urban areas
 - d) NRIs only
10. **Cooperative banks are based on the principle of:**
 - a) One share one vote
 - b) One man one vote

- c) Capital-based voting
- d) Director-based control

11. Credit creation by commercial banks refers to the ability to:

- a) Issue currency notes
- b) Convert black money
- c) Create deposits through loans
- d) Print digital currency

12. The process of credit creation starts with:

- a) Government borrowing
- b) Cash reserve
- c) Public expenditure
- d) Foreign exchange

13. Which concept explains the capacity of banks to create credit?

- a) Credit expansion theory
- b) Money multiplier
- c) Supply-side economics
- d) Credit curve

14. Credit creation depends on:

- a) Cash deposits only
- b) Legal tender
- c) Cash Reserve Ratio (CRR)
- d) Export-import policies

15. If CRR is increased, credit creation by banks will:

- a) Increase
- b) Decrease
- c) Remain unchanged
- d) Double

16. Money supply in an economy is determined by:

- a) RBI and commercial banks
- b) Only commercial banks
- c) SEBI
- d) Ministry of Finance

17. Which of the following is not a determinant of money supply?

- a) Reserve ratio
- b) Currency with the public
- c) Tax rate
- d) Bank deposits

18. High powered money is also called:

- a) Narrow money
- b) Base money
- c) Shadow money
- d) Term money

19. Broad money includes:

- a) Only demand deposits
- b) Time deposits
- c) Only currency
- d) Capital market instruments

20. Money supply increases when:

- a) Banks reduce lending
- b) People withdraw deposits
- c) Government borrows from RBI
- d) Taxes are raised

21. **Total bank credit refers to:**
 - a) Cash with banks
 - b) Loans and advances given by banks
 - c) Bank's profit
 - d) Treasury income
22. **Which of the following is not included in bank credit?**
 - a) Loans to industries
 - b) Investments in government securities
 - c) Loans to agriculture
 - d) Deposits with RBI
23. **Priority sector lending is a part of:**
 - a) Non-performing assets
 - b) Bank credit
 - c) CRR
 - d) Bank supervision
24. **Higher interest rates by RBI generally lead to:**
 - a) Increase in bank credit
 - b) Decrease in bank credit
 - c) No change in credit
 - d) Rapid inflation
25. **Which of the following impacts total bank credit?**
 - a) Repo rate
 - b) Gold imports
 - c) Election results
 - d) Postal savings

Answers

1. c) 1975
2. b) Rural poor and farmers
3. a) NABARD
4. b) Central Govt, State Govt, and Sponsor Bank
5. c) Rural and semi-urban areas
6. b) Cooperative credit
7. d) Merchant Cooperative Bank
8. c) RBI and State Governments
9. c) Urban and semi-urban areas
10. b) One man one vote
11. c) Create deposits through loans
12. b) Cash reserve
13. b) Money multiplier
14. c) Cash Reserve Ratio (CRR)
15. b) Decrease
16. a) RBI and commercial banks
17. c) Tax rate
18. b) Base money
19. b) Time deposits
20. c) Government borrows from RBI
21. b) Loans and advances given by banks

- 22. **d)** Deposits with RBI
- 23. **b)** Bank credit
- 24. **b)** Decrease in bank credit
- 25. **a)** Repo rate