

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Money and Banking

Q13. Money supply is equal to

- a) Money saved in post office savings bank only.
- b) Total stock of money held by government.
- c) Total stock of money circulating in an economy.
- d) Total flow of money circulating in an economy.

Ans. (c)

Q14. The lender of last resort is a function of

- a) Rural bank
- b) Post office
- c) Central bank
- d) Commercial bank

Ans. (c)

Q15. Legal reserve ratio is equal to

- a) $CRR \div SLR$
- b) $CRR - SLR$
- c) $SLR - CRR$
- d) $CRR + SLR$

Ans. (d)

SHORT ANSWER QUESTIONS (3/4 Marks)

Q16. Calculate the value money multiplier and the total deposit created if initial deposit is Rs. 500 crores and LRR is 10%.

Ans. Value of money multiplier = $1/LRR$ which is equal to $1/0.1 = 10$ Initial deposit was Rs. 500 crores Hence Total Deposit will be Initial Deposit \times Money Multiplier
 $= 500 \times 10$
 $= 5000$ Crores

Q17. Calculate LRR, if initial deposit of Rs. 200 crores lead to creation of total deposits of Rs. 1600 crores.

Ans. Money Multiplier = Total Deposits / Initial Deposits
 $= 1600 / 200 = 8$ Hence Money Multiplier = $1/LRR$
 $8 = 1/LRR$ LRR = 1.25 or 12.5

Q18. If total deposits created by commercial banks are Rs. 12,000, LRR is 25%, calculate initial deposit.

Ans. Money Multiplier = $1/\text{LRR} = 1/0.25 = 4$

Initial Deposit = Total Deposit / Money Multiplier

= $12000 / 4$

= Rs. 3000

Q19. What do you mean by high powered money?

Ans. High powered money or powerful money refers to that currency that has been issued by the Government and Reserve Bank of India. Some portion of this currency is kept along with the public while rest is kept as funds in Reserve Bank.

The equation is:

$H = C + R$

Where H = High Powered Money

C = Currency with the public (Paper money + coins)

R = Government and bank deposits with RBI

Thus the sum total of money deposited with the public and the funds of banks is termed as powerful money. It is mainly created by the central bank

Q20. Bring out the role of Central Bank as the controller of money supply or credit.

Ans. If the Central Bank wants to control credit, it will raise the bank rate. As a result, the market rate and other lending rates in the money-market will go up. Borrowing will be discouraged. The raising of bank rate will lead to contraction of credit. Similarly, a fall in bank rate will lower the lending rates in the money market which in turn will stimulate commercial and industrial activity, for which more credit will be required from the banks. Thus, there will be expansion of the volume of bank Credit.