

ANSWER KEY OF ECONOMICS ASSIGNMENT

CLASS XII

CHAPTER- MONEY AND BANKING

1. The given statement is defended.

- When the Central Bank buys government securities from the open market (thus injecting money into the system), it is without any promise to sell them later.
- Similarly, when the central bank sells these securities (thus withdrawing money from the system), it is without any promise to buy them later.

As a result, the injection/absorption of the money is of permanent nature.

2. The total amount of credit creation in an economy depends upon the amount of initial deposits and cash reserve ratio (CRR). An increase in the CRR by RBI may lead to lesser availability of deposits with commercial banks. This may reduce the lending capacity of commercial banks. Thus, adversely affecting the total credit creation in the economy.

3. (i) Money supply in the Indian economy will increase.

(ii) 3%

(iii) Decrease taxes or increase government expenditure

4. (a) The function being discussed here is the Bank of issue or Currency Authority. (Explain)

(b) Easier , Faster, Cheaper

Any two

5. From book