

BCM SCHOOL, BASANT AVENUE.DUGRI ROAD.LUDHIANA XII ECONOMICS (030) PERIODIC CYCLE-1 (SET-B)		M.M. 25
TIME: 50 MINS.		
1.	Money supply in India may increase if, 1. Reserve Bank of India (RBI) injects more money in circulation 2. the commercial banks expand their credit operation 3. The Central Government reduces tax rates 4. Reserve Bank of India increases the Bank Rate Alternatives: (a) 1,2 and 3 are correct. (b) 2, 3 and 4 are correct. (c) 1, 3 and 4 are correct. (d) 1, 2 and 4 are correct.	1
2.	Ms. Iqra Ansari, a teacher, was explaining in her class about various types of deposits with the commercial banks. She quoted that. "These deposits form a part of M1 measure of money supply and are payable on demand by the commercial banks." Name the type of deposits she was explaining and choose the correct alternative: (i) Demand Deposits (ii) Time Deposits (iii) Post Office Deposits: (a) Only (i) (b) Only (ii) (c) (i) and (ii) (d) (i), (ii) and (iii)	1
3.	Instead of outright purchase of securities, when the central bank buys government security through an agreement which has a specification about the date and price of resale of this security, this type of agreement is called _____. The interest rate at which the money is lent in this way is called the _____. (a) open market operations, bank rate (b) open market operations, repo rate (c) repurchase agreement (repo), repo rate (d) reverse repurchase agreement, reverse repo rate	1
4.	Statement 1: Primary deposits are the cash deposits by general public with commercial banks. Statement 2: Secondary deposits are those deposits which arise on account of credit provided by the commercial banks to the people. (a) Statement 1 is true and Statement 2 is false. (b) Statement 1 is false and Statement 2 is true. (c) Both Statements 1 and 2 are true. (d) Both Statements 1 and 2 are false.	1
5.	Read the following statements – Assertion (A) and Reason (R) and choose the correct alternative: Assertion (A): The currency issued by the central bank (Reserve Bank of India in India) can be held by the public or commercial banks and is called the high-powered money or 'monetary base'. Reason(R): It acts as a basis for credit creation. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A). (c) Assertion (A) is true, but Reason (R) is false. (d) Assertion: (A) is false but Reason (R) is true.	1
6.s	"Currency notes and coins as well as demand deposits are called fiat money ". Defend and refute the statement giving valid reason	3
7.	Explain function of Central Bank as a "Banker to government"	3
8.	Explain process of credit creation in detail with the help of numerical example.	4
9.	Explain the "standard of deferred payment" function of money. How has it solved the	4



	problem created by barter.	
10	<p>Read the following text carefully. Answer the given questions on the basis of the same and common understanding:</p> <p>On 30th September 2022, the Reserve Bank of India (RBI) raised Repo Rate for the fourth time in a row. The Monetary Policy Committee (MPC) decided to raise the policy rate by 50 basis points. (1 basis point = 1/100th of a percent). After this announcement, the new repo rate stands at 5.9%, while the reverse repo rate continues to stand at 3.35%.</p> <p>Commercial banks borrow money from the Central Bank, when there is a shortage of funds. With the surge in the repo rate, borrowings by general public will become costlier. This is because, as RBI hikes its repo rate, it becomes costly for the banks to borrow short term funds from the Central Bank. As a result, the banks hike the rates at which customers borrow money from them to compensate for the hike in the repo rate. This happens because banks offer loans to retail consumers at an interest rate which is, generally, directly proportional to the repo rate.</p> <p>The increase of 0.50 percent in repo rate will lead to a higher interest rate on loans for borrowers, implying that the Equated Monthly Instalments (EMIs) for repaying the existing loans will also increase.</p> <p>(a) State the meaning of repo rate and reverse repo rate.</p> <p>(b) Outline the recent change made by the Monetary Policy Committee of Reserve Bank of India in the repo rate.</p> <p>(c) "Increase in repo rate is an important tool used by Monetary Policy Committee to combat the situation of inflation in the Economy." Justify the given statement.</p>	<p>2</p> <p>1</p> <p>3</p>

