

# OPEN STUDENT FOUNDATION

Chapters : 3

Std-12 Economics

Date : 23/02/24

Day - 4

## Section A

- Choose correct answer from the given options. [Each carries 1 Mark] [10]
1. Who issues paper money of one rupee in India ? (March-2018)  
(A) Central bank (B) SBI (C) Finance ministry (D) RBI
  2. Who works for credit creation ? (July-2018)  
(A) Central Government (B) Commercial Bank (C) RBI (D) State Government
  3. What is name of Central bank of India? (March-2019)  
(A) State bank of India (B) Reserve bank of India (C) Bank of India (D) General bank
  4. What is Central Bank ? ( July-2019, July 2022)  
(A) Private bank (B) Apex bank (C) Corporation bank (D) International bank
  5. In which country, first bank was established ? (March-2020)  
(A) France (B) U.S.A. (C) Norway (D) Spain
  6. How many types of deposits in Indian banks? (May-2021, July 2022)  
(A) 2 (B) 6 (C) 4 (D) 10
  7. When RBI takes loan from any Commercial bank, the rate of which is known as ? (Aug-2020, May-2021)  
(A) Repo rate (B) Bank rate (C) Reverse repo rate (D) Open rate
  8. In which year, RBI was nationalised ? (March-2022)  
(A) 1949 (B) 1967 (C) 1935 (D) 1955
  9. Which one of the following is qualitative tool of monetary monetary policy ? (March-2022)  
(A) Repo Rate (B) RBI  
(C) Bank Rate (D) Indiscriminatory Interest Rate
  10. Who operates Pradhan Mantri Jan Dhan Yojana? (March-2023)  
(A) Central Government (B) SBI (C) Post Office (D) RBI

## Section B

- Write the answer of the following questions. [Each carries 3 Marks] [6]
11. List down the primary and secondary functions of commercial banks and explain each of those in one sentence. (July - 2019)
  12. State the difference between a commercial bank and a central bank. (July-2018, March-2020, Aug-2020)

## Section C

- Write the answer of the following questions. [Each carries 4 Marks] [4]
13. List down the quantitative and qualitative tools of monetary policy and explain each of those in one sentence. (July-2019)

# OPEN STUDENT FOUNDATION

Chapters : 3

## Std-12 Economics Practice Sheet Day 6

Date : 23/02/24

### Section A

● Choose correct answer from the given options. [Each carries 1 Mark] [10]

1. Who issues paper money of one rupee in India ? (March-2018)

- (A) Central bank                      (B) SBI                                      (C) Finance ministry                      (D) RBI

⇒ Ans : (C)

2. Who works for credit creation ? (July-2018)

- (A) Central Government                      (B) Commercial Bank                      (C) RBI                                      (D) State Government

⇒ Ans : (B)

3. What is name of Central bank of India? (March-2019)

- (A) State bank of India                      (B) Reserve bank of India                      (C) Bank of India                      (D) General bank

⇒ Ans : (B)

4. What is Central Bank ? ( July-2019, July 2022)

- (A) Private bank                      (B) Apex bank                                      (C) Corporation bank                      (D) International bank

⇒ Ans : (B)

5. In which country, first bank was established ? (March-2020)

- (A) France                                      (B) U.S.A.                                      (C) Norway                                      (D) Spain

⇒ Ans : (D)

6. How many types of deposits in Indian banks? (May-2021, July 2022)

- (A) 2                                      (B) 6                                      (C) 4                                      (D) 10

⇒ Ans : (B)

7. When RBI takes loan from any Commercial bank, the rate of which is known as ? (Aug-2020, May-2021)

- (A) Repo rate                                      (B) Bank rate                                      (C) Reverse repo rate                      (D) Open rate

⇒ Ans : (C)

8. In which year, RBI was nationalised ? (March-2022)

- (A) 1949                                      (B) 1967                                      (C) 1935                                      (D) 1955

⇒ Ans : (A)

9. Which one of the following is qualitative tool of monetary monetary policy ? (March-2022)

- (A) Repo Rate                                      (B) RBI  
(C) Bank Rate                                      (D) Indiscriminatory Interest Rate

⇒ Ans : (D)

10. Who operates Pradhan Mantri Jan Dhan Yojana? (March-2023)

- (A) Central Government                      (B) SBI                                      (C) Post Office                      (D) RBI

⇒ Ans : (D)

- Write the answer of the following questions. [Each carries 3 Marks]

11. List down the primary and secondary functions of commercial banks and explain each of those in one sentence. (July - 2019)

⇒ Primary functions of Commercial banks:

- (1) Accepting Deposits
- (2) Providing Credit Facilities
- (3) Payment and Withdrawal Facilities
- (4) Credit Creation
- (5) Inter-Banking Transactions

(1) Accepting Deposits:

⇒ Commercial banks provide different types of deposits and pay interest on them, accordingly. I.e. Current Account Deposits, Savings Account Deposits, Facility of Recurring-account (Recurring Deposit), Fixed/Long Term Deposits in which current account deposits are made for commercial deals so instead of paying interest, bank charges to maintain these accounts with overdraft facilities.

(2) Providing Credit Facilities:

⇒ When individuals or businesses require money for personal or investment purposes, they borrow from banks and banks provide credit by charging a rate of interest. In terms of time period, borrowing/credit can be for short term, medium term or long term.

(3) Payment and Withdrawal Facilities:

⇒ A bank provides easy payment and withdrawal facility to its customers in the form of cheques, withdrawal slips and drafts, pay order, ATM facilities, (Automatic Teller Machines), credit and debit cards, Internet banking, etc.

(4) Credit Creation

⇒ Banks undertake the activity of credit creation to ensure that the supply of money in the economy fulfils the demand for money. They give credit to people on demand in terms of loan and get interest on the same from the borrowers and create deposits for their own from the borrowed money. Commercial banks also provide overdraft facilities.

(5) Inter-Banking Transactions

⇒ Banks provide short term and long term credit to one another from time to time. Short term credit is provided by one bank to another through the central bank and is called 'call money'. The interest rate on call money is called the 'call money rate'.

⇒ Secondary/Other Functions of Commercial Banks

- (1) Agency & Utility Services
- (2) Provide various Facilities with Changing Times
- (3) Provides digital services

(1) Agency & Utility Services :

⇒ A bank provides various utility and agent banking facilities to its customers. I.e., insurance premiums, electricity bills, telephone bills, etc.

(2) Provide various Facilities with Changing Times :

⇒ Banks provide locker facilities to their customers to protect their commodities, stamps, etc. It also provides credits to the unknown importer and exporter, pays income tax challans, issues pay order or

bank order on demand by their customers, gives the guarantee for the economic activities, etc

(3) Provides digital services :

⇒ Banks provide online transfer services to their customers i.e NEFT, RTGS. It also provides a DEMAT account to deal with the share market.

12. State the difference between a commercial bank and a central bank. (July-2018, March-2020, Aug-2020)

Points	Commercial Bank	Central Bank
Aim	A commercial bank is a business unit which provides banking services for profit.	The central bank is the Apex bank of the country whose function is to aid, regulate and promote the entire money market and the banking sector; as well as to maintain monetary/financial stability for the overall economic good of the nation.
Deposit	A Commercial bank accepts deposits.	Central bank doesn't accept deposits.
Deals	A Commercial bank deals with people.	Central bank deals with banks.
Types	A Commercial bank is a bank of people.	Central bank is the bank of banks.
Currency	A Commercial bank can't issue currency.	Central bank issues currency.
Branch	A Commercial bank can have an international branch.	Central bank can't have an international branch.
Function	Commercial banks accept deposits from people and will pay the same with interest to them on their demands.	The Central bank manages, evaluates and regulates the banking activities in the entire country. Besides, a central bank protects the interests and rights of customers of various banks and of the general public.
Agent	A Commercial bank is the agent of their customer.	The Central bank is the agent of the government.
Types of banks	Types of commercial banks are public sector commercial banks, private sector commercial banks, foreign (multinational) banks working in India, Regional Rural banks (RRBs)	Central bank is only connected to the government.
Loan	Commercial banks give loans to people.	Central bank gives loans to banks, not to people.
Order	Commercial banks obey the order of central bank.	Central bank is an Apex bank, they don't need to follow anyone.
Example	SBI, BOB, ICICI, ADC	RBI

### Section C

● Write the answer of the following questions. [Each carries 4 Marks] [4]

13. List down the quantitative and qualitative tools of monetary policy and explain each of those in one sentence. (July-2019)

⇒ Quantitative tools of monetary policy

- (1) Bank Rate
- (2) Repo Rate and Reverse Repo Rate,
- (3) Stabilization under Emergency Situation
- (4) Cash Reserve Ratio-CRR
- (5) Statutory Liquidity Ratio-SLR,

(6) Open Market Operations-OMOs,

(7) Sterilisation Policy

(1) Bank Rate : QUANTUM PAPER

⇒ When commercial banks have shortage of funds, they borrow from the RBI. The rate at which RBI lends to the commercial banks for a long term is called the bank rate.

(2) Repo Rate and Reverse Repo Rate:

⇒ When commercial banks need funds for a very short period (sometimes for 1 day, 7 days, 15 days, etc.) they sell some securities which are held by them to the RBI with a repurchase agreement at a particular rate. This rate is called the repo rate. Reverse repo rate means the agreed upon rate at which the RBI repurchases its securities from the commercial banks in the event when the RBI has to borrow short term funds from the commercial banks by parking its securities with the commercial banks.

(3) Stabilisation under Emergency Situation:

⇒ There is a special window for banks to borrow from RBI against approved government securities in an emergency situation like an acute cash shortage. This rate is higher than Repo rate.

(4) Cash Reserve Ratio -CRR :

⇒ Under the RBI Act, 1934, all commercial banks have to keep certain minimum cash reserves with the RBI. Initially CRR was decided to be 5% of demand deposits and 2% of time deposits. It was variable as per the requirement felt by RBI. Since 1962, CRR has been variable between 3% and 15% of the total deposits of individual banks.

(5) Statutory Liquidity Ratio - SLR :

⇒ Apart from and in addition to CRR, under the Banking Regulation Act, 1949, all banks have to maintain equal to and not less than 25% of their total deposits (demand and time deposits) in the form of cash, gold and unencumbered approved securities. This is known as SLR.

(6) Open Market Operations -OMOs :

⇒ Open market operations refer to sale of or purchase of government securities/bonds by the RBI in the open market. This is known as OMOs.

(7) Sterilisation Policy

⇒ Sterilisation of RBI accounts against shocks arising from excessive increase or decrease in amount of foreign exchange: RBI sterilizes its balance sheet against external shocks. This is known as sterilization policy.

⇒ **Qualitative tools of monetary policy :**

(1) Security Requirement

(2) Margin Requirement

(3) Ceiling on Credit

(4) Discriminatory Interest Rate

(1) Security Requirement : (March -2019)

⇒ Banks must ensure that the public returns the loans given to them. Hence, they lend money against some security deposits from the borrowers. In case the borrower is not able to repay the loan, the bank uses the security to recover its dues. For example, a bank can take jewelry, deposits, car, house, land etc. as security.

(2) Margin Requirement :

⇒ The RBI also sets margins for granting loans against security.

(3) Ceiling on Credit :

⇒ The RBI also prescribes ceilings for credits for different purposes.

(4) Discriminatory Interest Rate:

⇒ RBI suggests differential rates of interest for different types of lending. This is called the policy of discriminatory interest rate.