

MCQ

1. The exchange of goods for goods is:

- (i) banker of option (ii) bills of exchange (iii) barter (iv) currency

2. Currency is issued by:

- (i) RBI on behalf of central government (ii) By president of India.
(iii) By finance minister (iv) None of them

3. National Sample Survey Organization is a :

- (i) Commercial bank organization (ii) An organization of World Bank
(iii) An organization associated with Indian Standard. Institute
(iv) An institution responsible to collect data on formal sector credit.

4. Gold mohar, a coin so named was brought in circulation by:

- (i) Akbar (ii) Sher Shah Suri (iii) Ashok (iv) Shivaji

5. Which agency is not included in informal loan sector or agency:

- (i) Bank (ii) Village money lender (iii) Trader (iv) Relative of borrower

6. In SHG most of the decisions regarding savings and loan activities are taken by:

- (i) Bank (ii) Members (iii) Non-government organizations (iv) LIC

7. Formal sources of credit does not include:

- (i) Banks (ii) Co-operatives (iii) Employers (iv) LIC

8. Security (pledge, mortgage) against loan:

- (i) Collateral (ii) Token Coins (iii) Promissory Note (iv) Currency

SHORT QUESTION TYPE ANSWERS

1. Give the meaning and functions of money.

Ans. Meaning of money: Money may be anything chosen by common consent as a medium of exchange and measure of value.

Functions of money:

(A) Primary functions:

- (a) Medium of exchange (b) Medium of value

(B) Secondary functions:

- (a) Store of value (b) Standard of deferred payments (c) Transfer of value

(C) Contingent functions:

- (a) Basis of credit (b) Liquidity (c) Maximum utilization of resources
(d) Guarantor of solvency (e) Distribution of National Income

2. What monetary system does India follow?

Ans. (a) India has adopted a representative paper currency or the managed currency standard.

(b) The monetary standard is synonymous with the standard money adopted. Paper currency in India is the unlimited legal tender i.e. it is used to settle debts and make payments against all transactions.

(c) RBI (The Reserve Bank of India) issues all currency notes and coins except one rupee notes and coins which are issued by the ministry of finance.

(d) The system governing note issues the minimum reserve system viz. certain quantity of gold is kept in reserve.

3. What is banking? Give the main features of commercial banking.

Ans. Banking is defined as the accepting of deposits for the purpose of lending or investment of deposited money by the public, repayable on demand or otherwise and withdrawal by cheque, draft order or otherwise.

Main features of commercial banks are as follows:

- (i) It deals with money, it accepts deposits and advances loans.
- (ii) It also deals with credit, it has the power to create credit.
- (iii) It is a commercial institution, whose aim is to earn profit.
- (iv) It is a unique financial institution that creates demand.
- (v) It deals with the general public.

LONG QUESTION TYPE ANSWERS

1. Discuss the historical origin of money.

Ans. Historical origin of money:

- (a) Animal money: First of all, human beings used animals as a medium of exchange. For example, the Vedic literature tells us that cows or horses were used as money in India.
- (b) Commodity money: Before the invention of money several commodities were used as money. Even today in small villages food-grains like, wheat, horse gram, rice etc. are used as commodity money.
- (c) Metallic money: Man used metal, like copper, silver, gold, etc. as a medium of exchange. Coins were minted by goldsmith and used as money until paper money was invented.
- (d) Paper money: China was the first country that started using representative paper currency standard. Certain quantity of gold is kept as reserve in proportion to currency notes issued at the particular point of time. Coins are also used besides paper currency in our country.
- (e) Credit money: Credit money is also known as bank money. It refers to bank deposits kept by people with banks which are payable on demand and can be transferred from one party to another through cheque/ demand drafts/pay orders etc.

7. Highlight the formal and informal credit sources in India.

Ans. (A) Formal credit sources

- (i) Commercial Banks (ii) Central Bank (iii) Government Agency (iv) LIC
- (v) Registered Chit Fund Companies (vi) UTI (vii) Mutual Fund Institution

Above mentioned all formal financial institutions accept savings and sanction loans to the people, companies and other agencies.

(B) Informal credit sources

- (i) Local moneylenders: village mahajan and sarafs or gold smiths in the rural areas or in the cities.
- (ii) Land lords: this class include the big, middle and small category land-lords. They accept as collateral, title documents of agricultural land, dwelling unit, factories and issue loans to needy persons and companies.
- (iii) Self help groups: thrift and credit societies, union of government servants, cooperative societies and farmers, labourers, domestic helpers and housewives organizations. They also accept savings from

different people and help their needy members.

- (iv) Chit fund companies and private finance companies are very powerful informal financial institutions. Some of them are working very effectively in villages and cities and all pay more interest to depositors than the formal agencies and institutions.

8. What are main functions of Reserve Bank of India?

Ans. The main function of the central bank is to act governor of the machinery of credit in order to secure stability of prices. It regulates the volume of credit and currency, pumping in more money when market is dry of cash, and pumping out money when there is credit. Broadly a central bank has two departments namely, issue department and banking department.

The main functions are:

- (i) **Issue of currency:** the central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money.
- (ii) **Banker to the government:** central bank functions as a banker to the government – both central and state governments. It carries out all banking business of the government.
- (iii) **Banker's bank and supervisor:** Central Bank acts as banker's bank in three capacities:
- (i) it is custodian of their cash reserves.
 - (ii) Central Bank is lender of last resort.
 - (iii) It acts as a bank of central clearance, settlements and transfers.
- (iv) **Controller of credit and money supply:** it is an important function of a central bank to control credit and money supply through its monetary policy. There are two parts of monetary policy, viz, currency and credit. Central bank has a monopoly of issuing notes and thereby can control the volumes of currency. It controls credit and money supply by adopting quantitative and qualitative measures

Answer Key of MCQ:1(iii)

2(i)

3(iv)

4(i)

5(i)

6(ii)