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| Question | **Which of the following is an effect of a higher Cash Reserve Ratio (CRR) set by the RBI?** |
| Type | multiple-choice |
| Option | Increase in money supply |
| Option | Increase in banks' lending capacity |
| Option | Decrease in banks' lending capacity |
| Option | No effect on banks' lending capacity |
| Answer | c |
| Solution | A higher CRR means banks must hold a larger proportion of their deposits with the RBI as reserves, reducing the funds they can lend out. This leads to a reduction in money supply and is typically used to control inflation |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following is NOT a function of the Reserve Bank of India?** |
| Type | multiple-choice |
| Option | Formulating monetary policy |
| Option | Supervising non-banking financial companies |
| Option | Controlling inflation through fiscal measures |
| Option | Regulating foreign exchange |
| Answer | c |
| Solution | Controlling inflation through fiscal measures is not a function of the RBI. Fiscal policy is handled by the government (through budgeting, taxation, and spending decisions). The RBI, however, uses monetary policy to influence inflation |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **The Reserve Bank of India publishes figures for how many measures of money supply?** |
| Type | multiple-choice |
| Option | Three |
| Option | Four |
| Option | Five |
| Option | None of the above |
| Answer | b |
| Solution | * Supply of Money In a modern economy, money comprises cash and bank deposits. * Depending on what types of bank deposits are being included, there are many measures of money. * These are created by a system comprising two types of institutions: the central bank of the economy and the commercial banking system. * Money supply, like money demand, is a stock variable. * The total stock of money in circulation among the public at a particular point in time is called **money supply**. * **RBI publishes figures for four alternative measures of money supply, viz. M1, M2, M3, and M4**. * They are defined as follows:   + M1 = CU + DD   + M2 = M1 + Savings deposits with Post Office savings banks   + M3 = M1 + Net time deposits of commercial banks   M4 = M3 + Total deposits with Post Office savings organizations (excluding National Savings Certificates) |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which committee recommended the establishment of the Reserve Bank of India?** |
| Type | multiple-choice |
| Option | Narasimham Committee |
| Option | Hilton Young Commission |
| Option | Basel Committee |
| Option | Rajamannar Committee |
| Answer | b |
| Solution | The Hilton Young Commission, also known as the Royal Commission on Indian Currency and Finance, recommended the establishment of a central bank for India, leading to the formation of the RBI |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **The Narasimham Committee I (1991) was instrumental in recommending which of the following?** |
| Type | multiple-choice |
| Option | Introduction of a single exchange rate for the Indian rupee |
| Option | Licensing of private banks and the reduction of statutory liquidity ratio (SLR) |
| Option | Introduction of the National Rural Employment Guarantee Act (NREGA) |
| Option | Creation of the Securities and Exchange Board of India (SEBI) |
| Answer | b |
| Solution | One of the significant recommendations of the Narasimham Committee I was the liberalization of the banking sector, which included granting licenses to private sector banks. It also recommended reducing the Statutory Liquidity Ratio (SLR) and improving the efficiency of commercial banks by promoting competition. These reforms were part of India's broader economic liberalization process in the early 1990s. |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **The Cash Reserve Ratio (CRR) is defined as** |
| Type | multiple-choice |
| Option | The rate at which the RBI lends to commercial banks |
| Option | The percentage of deposits that commercial banks must hold as reserves with the RBI |
| Option | The interest rate that commercial banks offer to customers |
| Option | The percentage of loans a bank must provide to priority sectors |
| Answer | b |
| Solution | The Cash Reserve Ratio (CRR) is a percentage of a bank's total deposits that must be kept as reserves with the RBI. This is a quantitative tool of monetary policy used to control the money supply in the economy. A higher CRR reduces the amount of funds banks can lend, thereby decreasing the money supply, while a lower CRR increases the lending capacity of banks. |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Under the Base Rate system, which of the following factors can influence a bank’s lending rates?** |
| Type | multiple-choice |
| Option | The statutory liquidity ratio (SLR) set by the RBI |
| Option | The cost of funds for the bank, including the interest rate on deposits |
| Option | The fiscal policies of the government |
| Option | The government’s annual budget announcement |
| Answer | b |
| Solution | Under the Base Rate system, the cost of funds for the bank is a key determinant of the base rate. This includes factors such as the interest rate the bank pays on deposits and its operational costs. The base rate is meant to reflect the bank's minimum lending rate, which ensures that the bank covers its costs and makes a profit while keeping lending rates transparent and competitive |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **The establishment of the Industrial Development Bank of India (IDBI) in 1964 was a significant step toward** |
| Type | multiple-choice |
| Option | Supporting agricultural cooperatives |
| Option | Promoting heavy industries |
| Option | Encouraging small-scale industries |
| Option | Providing housing loans |
| Answer | b |
| Solution | The Industrial Development Bank of India (IDBI) was established in 1964 under an Act of Parliament. Initially, it functioned as a wholly owned subsidiary of the Reserve Bank of India.  In 1976, the Union Government of India took over ownership of IDBI, marking a significant shift in control of the financial institution.  IDBI transformed into a commercial bank in 2004 to align with developments in India's financial sector, enhancing its operational capabilities.  MBA Skool offers a SWOT analysis of IDBI Bank, detailing its target market, segmentation, positioning, and unique selling proposition.  IDBI Bank plays a crucial role in the Indian economy, initially established to provide credit and financial facilities for developing Indian industries |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What was the main purpose of establishing the RBI?** |
| Type | multiple-choice |
| Option | To control public sector banks |
| Option | To manage foreign exchange only |
| Option | To control the issuance of currency, regulate credit, and manage monetary policy |
| Option | To manage government accounts exclusively |
| Answer | c |
| Solution | The RBI was established to regulate the issuance of banknotes, maintain reserves to secure monetary stability, and operate the currency and credit system of the country to its advantage |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **The primary function of the Monetary Policy Committee (MPC) in India is to:** |
| Type | multiple-choice |
| Option | Decide on the repo rate to control inflation |
| Option | Set fiscal policy targets |
| Option | Approve government spending on public projects |
| Option | Regulate foreign exchange |
| Answer | a |
| Solution | The MPC’s primary function is to determine the policy interest rate, especially the repo rate, to achieve the inflation target set by the government. The committee is tasked with keeping inflation within a specified range, currently 4% ± 2%, and thus plays a vital role in monetary policy decision-making |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What is the Reverse Repo Rate, and how does it function as a tool of monetary policy?** |
| Type | multiple-choice |
| Option | It is the interest rate at which the RBI lends money to the government |
| Option | It is the rate at which commercial banks borrow from each other |
| Option | It is the rate at which the RBI borrows money from commercial banks |
| Option | It is the rate at which the government borrows money from commercial banks |
| Answer | c |
| Solution | The Reverse Repo Rate is the interest rate at which the RBI borrows funds from commercial banks. By increasing the reverse repo rate, the RBI encourages banks to park their funds with it, thereby reducing the money supply in the economy. This tool is often used during periods of high inflation to absorb excess liquidity from the banking system |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following is a key recommendation made by the Narasimham Committee II (1998)?** |
| Type | multiple-choice |
| Option | Complete privatization of public sector banks |
| Option | Introduction of the Goods and Services Tax (GST) |
| Option | Strengthening of the banking system by reducing the number of public sector banks |
| Option | Establishment of the Reserve Bank of India as the sole regulator of the financial system |
| Answer | c |
| Solution | The Narasimham Committee II (1998) focused on further strengthening the banking and financial system. A key recommendation was to reduce the number of public sector banks through mergers and consolidation. The committee also advocated for improving the capital adequacy norms for banks and enhancing the supervision of financial institutions |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of these statements best describes an "expansionary monetary policy"?** |
| Type | multiple-choice |
| Option | It aims to decrease the money supply in the economy |
| Option | It aims to increase the interest rate to control inflation |
| Option | It aims to increase the money supply to stimulate economic growth |
| Option | It aims to raise taxes to increase government revenue |
| Answer | c |
| Solution | Expansionary monetary policy is used to boost economic growth by increasing the money supply, typically by lowering interest rates, which makes borrowing cheaper and encourages spending and investment |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Open Market Operations (OMO) as a tool of monetary policy primarily involves** |
| Type | multiple-choice |
| Option | Adjusting the interest rate on savings accounts |
| Option | Buying and selling government securities in the open market |
| Option | Imposing lending limits on banks |
| Option | Changing the margin requirements on loans |
| Answer | b |
| Solution | Open Market Operations (OMO) are a quantitative tool through which the RBI buys or sells government securities to control the money supply. By buying securities, the RBI injects money into the economy, increasing liquidity; by selling them, it withdraws money from the economy, reducing liquidity |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What does the Prime Lending Rate (PLR) refer to in the context of banking?** |
| Type | multiple-choice |
| Option | The minimum rate at which the central bank lends to commercial banks |
| Option | The rate at which banks lend to their most creditworthy customers |
| Option | The interest rate set by the RBI for interbank loans |
| Option | The maximum rate that banks can charge on any loan |
| Answer | b |
| Solution | The Prime Lending Rate (PLR) is the rate at which commercial banks lend to their most creditworthy customers, often large corporations with strong credit profiles. It serves as a benchmark for other interest rates on loans and is typically lower than the interest rates offered to customers with lower credit ratings |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **How does the introduction of the Base Rate system help promote transparency in the lending process?** |
| Type | multiple-choice |
| Option | By directly controlling the interest rates charged on loans |
| Option | By establishing a fixed interest rate for all types of loans |
| Option | By providing a clear and uniform benchmark for all loans, ensuring that lending rates are linked to the cost of funds |
| Option | By determining the maximum interest rate a bank can charge on loans |
| Answer | c |
| Solution | The Base Rate system promotes transparency by ensuring that all banks use a uniform benchmark for setting loan interest rates. This benchmark is directly linked to the cost of funds, so the rates banks charge are more predictable and reflective of the actual cost of providing loans. This reduces the scope for arbitrary lending rates and ensures fairness in the lending process |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following statements is true regarding the Benchmark Prime Lending Rate (BPLR)?** |
| Type | multiple-choice |
| Option | BPLR is determined by the RBI for all commercial banks in India |
| Option | BPLR is used to calculate the interest rates on home loans and personal loans for all customers |
| Option | Banks had the flexibility to set their own BPLR, based on their cost of funds and operational costs |
| Option | BPLR is no longer in use as it was replaced by the MCLR system |
| Answer | d |
| Solution | The Benchmark Prime Lending Rate (BPLR) was replaced by the Marginal Cost of Funds-based Lending Rate (MCLR) system in April 2016. The MCLR system was introduced to make the lending rate more sensitive to changes in the cost of funds for banks and to reflect market conditions more accurately. Hence, the BPLR is no longer used for determining loan interest rates in India |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following tools of monetary policy directly affects the reserve requirements of commercial banks?** |
| Type | multiple-choice |
| Option | Statutory Liquidity Ratio (SLR |
| Option | Public Debt |
| Option | Corporate Tax |
| Option | Budgetary Deficit |
| Answer | a |
| Solution | The SLR mandates that commercial banks maintain a minimum percentage of their net demand and time liabilities in the form of liquid assets like cash, gold, or government securities. This impacts banks' lending capabilities and hence affects the money supply |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following best describes a qualitative tool of monetary policy?** |
| Type | multiple-choice |
| Option | Adjusting the interest rate for short-term borrowing |
| Option | Setting a limit on credit for certain sectors to control lending |
| Option | Changing the Cash Reserve Ratio to influence the lending capacity of banks |
| Option | Issuing government securities in the open market |
| Answer | b |
| Solution | Qualitative tools are selective measures used to control the flow of credit to specific sectors. By setting credit limits or guidelines on loans to certain sectors, the RBI can influence how much credit flows to these areas without changing the overall money supply. This differs from quantitative tools, like the CRR, which impact the broader economy’s money supply. |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Contractionary monetary policy is primarily used to achieve which of the following objectives?** |
| Type | multiple-choice |
| Option | Stimulate economic growth by increasing public spending |
| Option | Increase inflation to boost demand |
| Option | Reduce inflation by decreasing the money supply |
| Option | Expand credit availability to encourage investment |
| Answer | c |
| Solution | Contractionary monetary policy aims to curb inflation by reducing the money supply in the economy. The central bank can achieve this by raising interest rates or increasing reserve requirements, which discourages borrowing and spending, thus slowing down inflationary pressures |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following was the primary focus of the Narasimham Committee I (1991)?** |
| Type | multiple-choice |
| Option | The recommendations for the introduction of the Goods and Services Tax (GST) |
| Option | Financial sector reforms and liberalization of the Indian economy |
| Option | Recommending the structure of the Indian judiciary |
| Option | Recommending fiscal measures for controlling inflation |
| Answer | b |
| Solution | The Narasimham Committee I (1991) was primarily tasked with recommending reforms for the financial sector in India. The committee's key recommendations focused on banking reforms, liberalizing the financial system, improving efficiency, and strengthening the banking sector. This committee played a pivotal role in shaping India’s financial sector reforms during the 1990s. |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **Which of the following is a factor used to determine the Marginal Cost of Lending Rate (MCLR)?** |
| Type | multiple-choice |
| Option | Bank's operational cost |
| Option | The cost of long-term government bonds |
| Option | The RBI’s reverse repo rate |
| Option | The bank's incremental cost of funds |
| Answer | d |
| Solution | The Marginal Cost of Lending Rate (MCLR) is primarily determined by the bank's incremental cost of funds, which reflects the cost of obtaining additional funds for lending purposes. Other components like the cost of operating and the margin for profit are also added to the MCLR to determine the final lending rate. The MCLR system makes lending rates more sensitive to changes in the cost of funds and market conditions. |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What is the primary purpose of the Benchmark Prime Lending Rate (BPLR) in Indian banking?** |
| Type | multiple-choice |
| Option | To set the interest rates on government bonds |
| Option | To provide a reference rate for determining the interest rates on loans to the best customers |
| Option | To determine the reserve ratio for commercial banks |
| Option | To set the rate at which commercial banks borrow from the Reserve Bank of India |
| Answer | b |
| Solution | The Benchmark Prime Lending Rate (BPLR) was used by banks as a reference rate to set the interest rates on loans to their most creditworthy customers. It reflects the minimum rate at which banks lend to their best borrowers, and other loan rates are typically based on this benchmark. It was replaced by the MCLR (Marginal Cost of Funds-based Lending Rate) system in 2016 to make lending rates more responsive to market conditions |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What is the primary difference between the Base Rate and the Marginal Cost of Lending Rate (MCLR) system?** |
| Type | multiple-choice |
| Option | MCLR is based on the cost of funds for banks, while the Base Rate is based on the RBI’s monetary policy stance |
| Option | MCLR is updated monthly, while the Base Rate is fixed for a longer period |
| Option | MCLR is determined by the RBI, while the Base Rate is determined by individual banks |
| Option | MCLR applies only to corporate loans, while the Base Rate applies to all types of loans |
| Answer | b |
| Solution | The primary difference is that under the MCLR system, the interest rates are more sensitive to the changes in the cost of funds and are updated at least once a month, unlike the Base Rate system, which was typically updated at longer intervals. MCLR is designed to make lending rates more responsive to market conditions and changes in the RBI's policy rates |
| Positive Marks | 2 |
| Negative Marks | 0.66 |

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| Question | **What is the primary objective of the Base Rate system introduced by the Reserve Bank of India (RBI)?** |
| Type | multiple-choice |
| Option | To control the foreign exchange rates |
| Option | To provide a uniform reference rate for determining lending rates for all loans |
| Option | To fix the interest rates on government securities |
| Option | To set the minimum reserve requirements for commercial banks |
| Answer | b |
| Solution | The Base Rate system, introduced by the RBI in 2010, was aimed at ensuring transparency in lending rates by providing a uniform reference rate for all loans. Banks are required to set their lending rates above the base rate, ensuring that customers are charged a fair and consistent rate based on their credit profile and risk |
| Positive Marks | 2 |
| Negative Marks | 0.66 |