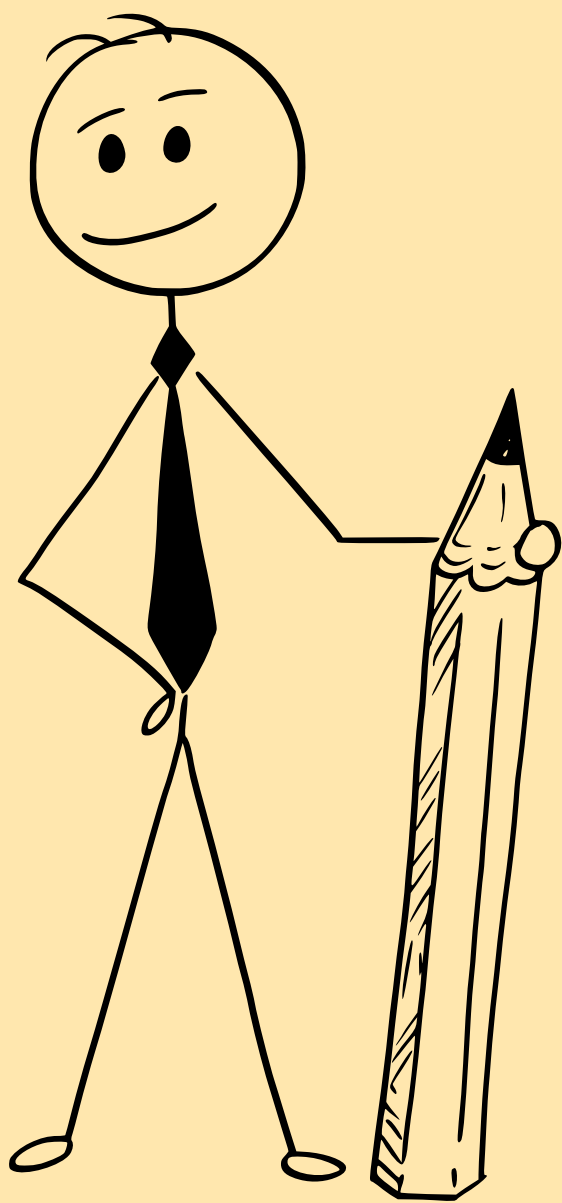


DPP

DAILY PRACTICE PROBLEMS



MONEY

Daily Practice Problems

Difficulty level- EASY

1. What is the main function of money in an economy?

- a) Medium of exchange
- b) Unit of account
- c) Store of value
- d) All of the above

7. What is the main issue with the barter system that money resolves?

- a) Lack of trust
- b) Double coincidence of wants
- c) Limited storage options
- d) High transaction costs

2. What is fiat money?

- a) Money with intrinsic value
- b) Money backed by gold reserves
- c) Money declared legal tender by the government
- d) Money used only for international trade

8. The Reserve Bank of India issues currency under which system?

- a) Full-reserve system
- b) Proportional-reserve system
- c) Minimum Reserve System
- d) Fractional-reserve system

3. Which of the following is an example of commodity money?

- a) Paper currency
- b) Gold coins
- c) Cryptocurrency
- d) Demand drafts

9. What is the term for money that is quickly convertible into cash?

- a) Liquidity
- b) Velocity
- c) Tangibility
- d) Elasticity

4. What does M1 in money supply include?

- a) Only currency with the public
- b) Currency with the public and demand deposits with banks
- c) Total savings and deposits
- d) Cash reserves with the central bank

10. The velocity of money refers to:

- a) The rate at which money is printed
- b) The speed at which money circulates in the economy
- c) The frequency of transactions in the government sector
- d) The amount of reserves held by banks

5. What is the most liquid measure of money supply?

- a) M1
- b) M2
- c) M3
- d) M4

11. Which of the following is not a function of the RBI?

- a) Printing of all coins and Rs. 1 notes
- b) Issuing currency
- c) Managing inflation
- d) Acting as the lender of last resort

6. Legal tender is defined as money that:

- a) Can be refused for payments
- b) Must be accepted for payment of debts
- c) Is issued by private institutions
- d) Is only used in digital transactions

12. What is Gresham's Law?

- a) Bad money drives good money out of circulation
- b) Good money drives bad money out of circulation
- c) Currency loses its value over time
- d) Money supply reduces during inflation

13. What is "high-powered money"?
- a) Total currency with the public
 - b) Total reserves with the central bank
 - c) Currency with the public and reserves with the central bank
 - d) Savings deposits with banks

18. What is the difference between M3 and M1 in terms of money supply?
- a) Savings deposits in post offices
 - b) Time deposits with banks
 - c) Currency in circulation
 - d) Demand deposits

14. Which of the following is an example of near money?
- a) Fixed deposits
 - b) Physical cash
 - c) Cryptocurrency
 - d) Demand drafts

19. Which entity is responsible for printing Rs. 1 notes in India?
- a) Reserve Bank of India
 - b) Ministry of Finance
 - c) Comptroller and Auditor General
 - d) State Governments

15. What does the term "money multiplier" refer to?
- a) The ratio of broad money to high-powered money
 - b) The total amount of foreign exchange reserves
 - c) The speed at which money changes hands
 - d) The difference between M1 and M3

20. What is the purpose of liquidity adjustment facilities like repo and reverse repo?
- a) Regulate inflation and stabilize currency
 - b) Fund public welfare schemes
 - c) Provide loans to private companies
 - d) Ensure credit flow to the rural sector

16. The central bank uses which of the following to control money supply?
- a) Repo rate
 - b) Taxation policy
 - c) Foreign trade policy
 - d) Infrastructure spending

21. Cryptocurrency is an example of:
- a) Fiat money
 - b) Fiduciary money
 - c) Digital money
 - d) Commodity money

17. Which type of money has intrinsic value?
- a) Fiat money
 - b) Commodity money
 - c) Fiduciary money
 - d) Near money

22. The Consumer Price Index (CPI) measures:
- a) Changes in the price of gold
 - b) Changes in general price levels for consumer goods and services
 - c) Production levels of goods in the economy
 - d) Growth rate of the GDP

23. In India, which monetary aggregate is referred to as "broad money"?

- a) M1
- b) M2
- c) M3
- d) M4

28. The term "broad money" includes:

- a) Only physical cash in circulation
- b) Currency with public and time deposits with banks
- c) Government bonds and securities
- d) Only demand deposits

24. Which type of money is not backed by physical reserves like gold?

- a) Fiat money
- b) Commodity money
- c) Representative money
- d) Near money

29. The Reserve Bank of India's main tool for absorbing excess liquidity is:

- a) Repo rate
- b) Reverse repo rate
- c) Bank Rate
- d) Cash Reserve Ratio

25. What is the current inflation targeting range in India?

- a) 3-7%
- b) 2-6%
- c) 4-8%
- d) 1-5%

30. What is the characteristic feature of plastic money?

- a) It is issued by the central government
- b) It refers to debit and credit cards
- c) It is directly linked to gold reserves
- d) It is used for foreign trade only

26.. Central Bank Digital Currency (CBDC) is an example of:

- a) Cryptocurrency
- b) Fiat money
- c) Representative money
- d) Near money

27. The Minimum Reserve System requires RBI to maintain reserves of:

- a) Rs. 200 crore in gold and foreign currency
- b) Rs. 100 crore in cash
- c) Rs. 500 crore in securities
- d) Rs. 200 crore in bonds

Difficulty level- MEDIUM

1. Which of the following are functions of money?

1. Medium of exchange
2. Store of value
3. Instrument for creating inflation
4. Unit of account

- a) 1 and 2 only
- b) 1, 2, and 4 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

4. Which of the following come under broad money (M3)?

1. Currency with the public
2. Demand deposits with banks
3. Time deposits with banks
4. Treasury bills

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 2, 3, and 4 only
- d) 1, 2, 3, and 4

2. Which of the following are components of M1?

1. Currency with the public
2. Demand deposits with banks
3. Time deposits with banks
4. Other deposits with RBI

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 1, 2, and 4 only
- d) 1, 3, and 4 only

5. Which of the following are characteristics of high-powered money?

1. Includes currency in circulation
2. Includes reserves with the central bank
3. Excludes time deposits with banks
4. Represents the most liquid form of money

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 1, 2, 3, and 4
- d) 1, 3, and 4 only

3. 1. It is issued by the government or central bank.

2. It is backed by gold reserves.
3. It has no intrinsic value.
4. It is declared legal tender by law.

- a) 1 and 3 only
- b) 1, 3, and 4 only
- c) 2, 3, and 4 only
- d) 1, 2, 3, and 4

6. Which of the following measures are used by the RBI to control money supply?

1. Repo rate
2. Cash reserve ratio
3. Statutory liquidity ratio
4. Goods and Services Tax (GST)

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

7. Which of the following statements are correct about legal tender money?

1. It must be accepted for all payments.
2. It can include both fiat money and commodity money.
3. It cannot be refused for settling debts.
4. It is universally accepted across all countries.

- a) 1 and 3 only
- b) 1, 2, and 3 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

10. Which of the following are true about cryptocurrencies?

1. They are not backed by any central authority.
2. They are a form of digital money.
3. They have intrinsic value like commodity money.
4. They rely on blockchain technology.

- a) 1 and 2 only
- b) 1, 2, and 4 only
- c) 1, 3, and 4 only
- d) 2, 3, and 4 only

8. Which of the following are advantages of the barter system?

1. No need for a central authority to regulate trade.
2. Eliminates the need for a medium of exchange.
3. Direct trade of goods and services without intermediaries.
4. Efficient pricing of goods.

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 1 and 3 only
- d) 2, 3, and 4 only

11. Which of the following statements are true about Gresham's Law?

1. Bad money drives good money out of circulation.
2. It applies to situations where both types of money are in circulation.
3. It states that undervalued money is hoarded.
4. It applies only in barter economies.

- a) 1 and 3 only
- b) 1, 2, and 3 only
- c) 2, 3, and 4 only
- d) 1, 2, 3, and 4

9. Which of the following are included in near money?

1. Fixed deposits
2. Savings accounts
3. Physical currency
4. Treasury bills

- a) 1 and 2 only
- b) 1, 2, and 4 only
- c) 2 and 3 only
- d) 1, 3, and 4 only

12. Which of the following are monetary aggregates measured in India?

1. M1
2. M2
3. M3
4. GDP

- a) 1 and 3 only
- b) 1, 2, and 3 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

13. Which of the following instruments are used in the money market?

1. Treasury bills
2. Commercial papers
3. Corporate bonds
4. Certificates of deposit

Options:

- a) 1 and 2 only
- b) 1, 2, and 4 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

14. Which of the following are objectives of inflation targeting?

1. Stabilizing the value of money
2. Promoting economic growth
3. Increasing fiscal revenue
4. Controlling price volatility

- a) 1 and 4 only
- b) 1, 2, and 4 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

15. Which of the following are tools of quantitative monetary policy?

1. Open market operations
2. Bank rate policy
3. Credit rationing
4. Reverse repo rate

- a) 1 and 2 only
- b) 1, 2, and 4 only
- c) 2, 3, and 4 only
- d) 1, 3, and 4 only

Difficulty level-HARD

1. Match monetary policy tools with their functions:

Tool	Function
A. Repo Rate	1. Mandates reserves with RBI
B. Reverse Repo Rate	2. Controls short-term borrowing costs
C. CRR (Cash Reserve Ratio)	3. Absorbs excess liquidity
D. Open Market Operations	4. Regulates liquidity via securities

2. Match monetary aggregates with their components:

Monetary Aggregate	Component
A. M1	1. Currency with the public + demand deposits
B. M2	2. M3 + All post office deposits
C. M3	3. M1 + Time deposits with banks
D. M4	4. M1 + Savings deposits at post offices

3. Match types of money with their characteristics:

Type	Characteristic
A. Fiat Money	1. Has intrinsic value
B. Fiduciary Money	2. Declared legal tender by the government
C. Commodity Money	3. Based on trust, not intrinsic value
D. Representative Money	4. Redeemable for a specific commodity

4. Assertion (A): M1 is the most liquid form of money.

Reason (R): M1 consists of currency with the public, demand deposits, and other deposits with the RBI.

- a) Both A and R are true, and R is the correct explanation of A.
- b) Both A and R are true, but R is not the correct explanation of A.
- c) A is true, but R is false.
- d) A is false, but R is true.

7. Which of the following are characteristics of fiat money?

- 1. Declared legal tender by the government
- 2. Backed by gold reserves
- 3. Lacks intrinsic value
- 4. Used in all modern economies

- a) 1, 3, and 4 only
- b) 1 and 2 only
- c) 2, 3, and 4 only
- d) 1, 2, and 4 only

5. Assertion (A): Increasing the CRR reduces the money supply in the economy.

Reason (R): CRR mandates banks to hold a percentage of their deposits with the RBI, reducing lending capacity.

Options:

- a) Both A and R are true, and R is the correct explanation of A.
- b) Both A and R are true, but R is not the correct explanation of A.
- c) A is true, but R is false.
- d) A is false, but R is true.

8. Which of the following are included in M3?

- 1. Currency with the public
- 2. Time deposits with banks
- 3. Demand deposits with banks
- 4. Savings deposits in post offices

- a) 1, 2, and 3 only
- b) 1, 2, 3, and 4
- c) 2, 3, and 4 only
- d) 1 and 4 only

6. Assertion (A): Hyperinflation occurs when governments print excessive money.

Reason (R): Excess money supply reduces the value of currency, leading to uncontrolled price increases.

Options:

- a) Both A and R are true, and R is the correct explanation of A.
- b) Both A and R are true, but R is not the correct explanation of A.
- c) A is true, but R is false.
- d) A is false, but R is true.

9. Which of the following actions indicate contractionary monetary policy?

- 1. Increasing the repo rate
- 2. Reducing CRR
- 3. Selling government securities

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1 and 3 only
- d) 1, 2, and 3

10. Which of the following are not the primary functions of money?

1. Trade in foreign markets
2. Store of value
3. Instrument for credit creation
4. Unit of account

- a) 1, 2, and 4 only
- b) 1 and 3 only
- c) 2 and 4 only
- d) 1, 2, 3, and 4

13. Which of the following statements are correct about legal tender?

1. It must be accepted for debt repayment.
2. Coins are unlimited legal tender in India.
3. Banknotes are limited legal tender.

- a) 1 and 2 only
- b) 1 only
- c) 1 and 3 only
- d) 1, 2, and 3

11. Which of the following are components of high-powered money?

1. Currency in circulation
2. Reserves held by banks with the central bank
3. Time deposits with banks

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1, 2, and 3
- d) 1 and 3 only

14. Which of the following are characteristics of near money?

1. Highly liquid but not a medium of exchange
2. Includes fixed deposits and treasury bills
3. Can be converted to cash with minimal loss of value
4. Part of M1 monetary aggregate

- a) 1 and 2 only
- b) 1, 2, and 3 only
- c) 1, 3, and 4 only
- d) 2, 3, and 4 only

12. Which of the following affect bond yields in India?

1. Actions of the RBI
2. Inflation rates
3. Actions of the US Federal Reserve

- a) 1 and 2 only
- b) 2 and 3 only
- c) 1, 2, and 3
- d) 1 and 3 only

15. Which of the following are true about the barter system?

1. It required a double coincidence of wants.
 2. It eliminated the need for a medium of exchange.
 3. It was inefficient for large economies.
 4. It served as the basis for the introduction of money.
- a) 1, 3, and 4 only
 - b) 1 and 2 only
 - c) 1, 2, and 4 only
 - d) 1, 2, 3, and 4

Difficulty level- EASY

1. ANS: d) All of the above

EXPLANATION

Money serves as a medium of exchange, store of value, and unit of account. These functions allow seamless trade, savings, and price measurement.

Pro Tip: Always relate these three functions to the definition of money.

2. ANS: c) Money declared legal tender by the government

EXPLANATION

Fiat money has no intrinsic value but is declared as legal tender by the government.

Examples: Paper currency and coins.

MCQ Pointer: Statements claiming fiat money has intrinsic value are incorrect.

3. ANS: b) Gold coins

EXPLANATION

Commodity money includes items with intrinsic value like gold or silver coins.

Pro Tip: Commodity money is rare in modern economies but was prevalent in earlier systems.

4. ANS: b) Currency with the public and demand deposits with banks

EXPLANATION

M1 consists of currency with the public and demand deposits in banks. It is the narrowest measure of money supply.

5. ANS: a) M1

EXPLANATION

M1 is the most liquid money supply component as it can be immediately used for transactions. Other measures (M2, M3) include less liquid components.

6. ANS: b) Must be accepted for payment of debts

EXPLANATION

Legal tender refers to money that creditors are legally obligated to accept for settling debts.

7. ANS: b) Double coincidence of wants

EXPLANATION

Money eliminates the need for the double coincidence of wants, a key limitation of the barter system.

8. ANS: c) Minimum Reserve System

EXPLANATION

Under the Minimum Reserve System, the RBI maintains Rs. 200 crore in gold and foreign currency to back currency issuance.

9. ANS: a) Liquidity

EXPLANATION

Liquidity refers to the ease with which an asset can be converted into cash without losing value.

10. ANS: b) The speed at which money circulates in the economy

EXPLANATION

Velocity of money measures how quickly money changes hands in an economy over a period.

11. ANS: a) Printing of all coins and Rs. 1 notes

EXPLANATION

Rs. 1 notes and coins are issued by the Ministry of Finance, while all other denominations are issued by the RBI.

12. ANS: a) Bad money drives good money out of circulation

EXPLANATION

Gresham's Law states that in circulation, bad money (overvalued) drives good money (undervalued) out of use.

13. ANS: : c) Currency with the public and reserves with the central bank

EXPLANATION

High-powered money consists of currency with the public and reserves held by commercial banks with the central bank.

14. ANS: a) Fixed deposits

EXPLANATION

Near money includes assets like fixed deposits and savings certificates that are not cash but can be converted to cash quickly.

15. ANS: a) The ratio of broad money to high-powered money

EXPLANATION

The money multiplier is the ratio of broad money (M3) to high-powered money (H or MO) and reflects the money supply created by reserves.

16. ANS: a) Repo rate

EXPLANATION

The repo rate is the interest rate at which the RBI lends money to commercial banks. Adjusting it controls liquidity.

17. ANS: b) Commodity money

EXPLANATION

Commodity money has intrinsic value, such as gold or silver, used both as money and for other purposes.

18. ANS: b) Time deposits with banks

EXPLANATION

The difference between M3 (broad money) and M1 (narrow money) is time deposits, which are less liquid.

19. ANS: b) Ministry of Finance

EXPLANATION

Rs. 1 notes are printed by the Ministry of Finance, while the RBI prints all other currency notes.

20. ANS: a) Regulate inflation and stabilize currency

EXPLANATION

Liquidity adjustment facilities like repo and reverse repo are used to control inflation and stabilize liquidity.

21. ANS: c) Digital money

EXPLANATION

Cryptocurrency like Bitcoin is a form of digital money, not backed by a central authority.

22. ANS: b) Changes in general price levels for consumer goods and services

EXPLANATION

The Consumer Price Index (CPI) measures changes in the general price levels for goods and services consumed by households.

23. ANS: c) M3

EXPLANATION

M3 includes M1 (currency with the public + demand deposits) and time deposits, making it "broad money."

24. ANS: a) Fiat money

EXPLANATION

Fiat money is not backed by reserves like gold. Its value is derived from government decree as legal tender.

25. ANS: b) 2-6%

EXPLANATION

The current inflation targeting range in India, managed by the Monetary Policy Committee (MPC), is 2-6%.

26. ANS: b) Fiat money

EXPLANATION

Central Bank Digital Currency (CBDC) is a digital version of fiat money issued by a central bank.

27. **ANS:** a) Rs. 200 crore in gold and foreign currency

EXPLANATION

The Minimum Reserve System requires the RBI to maintain Rs. 200 crore in gold and foreign currency as reserves.

29. **ANS:** b) Reverse repo rate

EXPLANATION

The reverse repo rate is used by the RBI to absorb excess liquidity from banks, reducing money supply.

28. **ANS:** b) Currency with public and time deposits with banks

EXPLANATION

Broad money (M3) includes currency with the public and time deposits with banks, making it less liquid than narrow money.

30. **ANS:** b) It refers to debit and credit cards

EXPLANATION

Plastic money refers to debit and credit cards, used as a modern substitute for physical cash.

Difficulty level- MEDIUM

1. ANS: b) 1, 2, and 4 only

EXPLANATION

Money functions as a medium of exchange for trade, a store of value for future use, and a unit of account to measure value. It does not act as an instrument for creating inflation.

Pro Tip: Focus on the three primary functions of money—exchange, store, and account.

2. ANS: c) 1, 2, and 4 only

EXPLANATION

M1 (narrow money) includes:

1. Currency with the public
2. Demand deposits in banks
3. Other deposits with the RBI

Time deposits are excluded, as they are part of M3.

MCQ Pointer: Time deposits (e.g., fixed deposits) are part of M3, not M1.

3. ANS: b) 1, 3, and 4 only

EXPLANATION

Fiat money is issued by the government or central bank, has no intrinsic value, and is declared legal tender by law. It is not backed by gold.

Pro Tip: Remember, fiat money derives its value solely from government decree.

4. ANS: b) 1, 2, and 3 only

EXPLANATION

Broad money (M3) includes:

1. Currency with the public
2. Demand deposits with banks
3. Time deposits with banks

Treasury bills are financial instruments, not part of M3.

MCQ Pointer: Distinguish between money supply aggregates (M1, M3) and market instruments like treasury bills.

5. ANS: c) 1, 2, 3 and 4

EXPLANATION

High-powered money includes:

1. Currency in circulation
2. Reserves with the central bank
3. Excludes time deposits
4. It is the most liquid money form.

Pro Tip: High-powered money = Central bank's direct money creation.

6. ANS: b) 1, 2, and 3 only

EXPLANATION

The RBI controls money supply using tools like:

1. **Repo rate:** Interest rate for lending to banks.
2. **CRR (Cash Reserve Ratio):** Portion of deposits banks must keep as reserves.
3. **SLR (Statutory Liquidity Ratio):** Minimum reserves banks must hold in government securities.
4. **GST** is a fiscal tool, not a monetary one.

MCQ Pointer: Understand monetary policy tools like repo rate, CRR, and SLR.

7. ANS: a) 1 and 3 only

EXPLANATION

Legal tender:

1. Must be accepted for all payments.
2. Cannot be refused for settling debts.

It is specific to a country and does not universally include commodity money.

Pro Tip: Commodity money is not always legal tender (e.g., gold in modern economies).

8. ANS: c) 1 and 3 only

EXPLANATION

Advantages of the barter system:

1. No need for a central authority to regulate.
2. Direct trade of goods and services without intermediaries.

It lacks efficient pricing or a standard medium of exchange.

MCQ Pointer: Barter system disadvantages often include inefficiency and lack of standardization.

9. ANS: b) 1, 2, and 4 only

EXPLANATION

Near money includes assets like:

1. Fixed deposits
2. Savings accounts
3. Treasury bills

These are not physical cash but can be quickly converted into cash.

Pro Tip: Near money = High liquidity but not used directly for transactions.

10. ANS: b) 1, 2, and 4 only

EXPLANATION

Cryptocurrencies:

1. Are decentralized and not backed by central authorities.
 2. Are forms of digital money.
 3. Rely on blockchain technology.
- They lack intrinsic value, unlike commodity money.

Pro Tip: Cryptocurrency = Digital, decentralized, blockchain-based.

11. ANS: b) 1, 2, and 3 only

EXPLANATION

Gresham's Law:

1. Bad money drives good money out of circulation.
2. Applies when both types are in circulation.
3. Undervalued (good) money is hoarded.

It does not apply to barter systems.

MCQ Pointer: Gresham's Law operates in monetary economies with dual circulation.

12. ANS: b) 1, 2, and 3 only

EXPLANATION

Monetary aggregates in India include:

1. M1: Narrow money
2. M2: Narrow money + Post Office savings
3. M3: Broad money

GDP measures economic output, not money supply.

Pro Tip: Focus on the difference between monetary aggregates and economic indicators.

13. **ANS:** b) 1, 2, and 4 only

EXPLANATION

Money market instruments include:

1. Treasury bills
2. Commercial papers
3. Certificates of deposit

Corporate bonds belong to the capital market.

MCQ Pointer: Capital market focuses on long-term funding, unlike the money market.

14. **ANS:** b) 1, 2, and 4 only

EXPLANATION

Inflation targeting aims to:

1. Stabilize the value of money
2. Promote economic growth
3. Control price volatility

Increasing fiscal revenue is not its objective.

Pro Tip: Inflation targeting = Stability + Growth + Price control.

15. **ANS:** b) 1, 2, and 4 only

EXPLANATION

Quantitative monetary policy tools include:

1. Open market operations
2. Bank rate policy
3. Reverse repo rate

Credit rationing is a qualitative tool.

MCQ Pointer: Quantitative tools focus on money supply, while qualitative tools influence credit flow.

Difficulty level- HARD**1. ANS: A-2, B-3, C-1, D-4****EXPLANATION**

These tools influence money supply, liquidity, and interest rates to stabilize the economy.

Repo Rate: Controls borrowing costs by setting the interest rate for short-term loans from RBI to banks.

Reverse Repo Rate: Absorbs liquidity as banks deposit funds with RBI to earn interest.

CRR: Requires banks to hold a portion of deposits as reserves, reducing their lending capacity.

Open Market Operations: Regulate liquidity through the buying or selling of government securities.

2. ANS: A-1, B-4, C-3, D-2**EXPLANATION**

M1 through M4 represent increasing liquidity complexity in monetary aggregates.

M1: Currency with the public and demand deposits represent the most liquid money supply.

M2: Adds savings deposits in post offices to M1.

M3: Combines M1 and time deposits with banks, representing broad money.

M4: Includes M3 and all post office deposits, further broadening money supply.

3. **ANS:** A-2, B-3, C-1, D-4

EXPLANATION

Types of money vary in value basis—trust, government decree, or intrinsic worth.

Fiat Money: Declared legal tender by the government and lacks intrinsic value.

Fiduciary Money: Based on trust, such as cheques, with no inherent backing.

Commodity Money: Has intrinsic value, like gold and silver.

Representative Money: Represents a claim to tangible commodities (e.g., gold certificates).

4. **ANS:** a) Both A and R are true, and R is the correct explanation of A.

EXPLANATION

Liquidity is highest in M1 as it is immediately accessible for spending.

M1 is the most liquid form of money: It includes currency, demand deposits, and RBI-held deposits, all readily usable for transactions.

5. **ANS:** a) Both A and R are true, and R is the correct explanation of A.

EXPLANATION

CRR directly impacts credit availability, serving as a contractionary tool.

CRR reduces money supply: Banks must keep a portion of deposits with RBI, restricting funds available for lending.

6. **ANS:** a) Both A and R are true, and R is the correct explanation of A.

EXPLANATION

When currency supply outpaces economic output, inflation spirals out of control.

Hyperinflation: Excessive money printing causes currency devaluation and uncontrollable price rises.

7. **ANS:** a) 1, 3, and 4 only

EXPLANATION

Fiat money relies on trust and government mandate, unlike commodity-backed currency.

Fiat Money Characteristics: Declared legal tender, lacks intrinsic value, and is used globally. It is not backed by gold.

8. ANS: a) 1, 2, and 3 only

EXPLANATION

M3 combines M1 (narrow money) with time deposits, broadening its scope.

M3 Components: Includes currency, demand deposits, and time deposits with banks. Post office savings are excluded.

9. ANS: c) 1 and 3 only

EXPLANATION

Contractionary measures aim to curb inflation by tightening liquidity

Contractionary Policy: Involves increasing repo rates (costlier loans) and selling securities (reducing money supply). Lowering CRR is expansionary.

10. ANS: b) 1 and 3 only

EXPLANATION

Money's core functions facilitate trade, value storage, and pricing.

Primary Functions of Money:

It acts as a **medium of exchange**, **store of value**, and **unit of account**. Credit creation is a banking function.

11. ANS: a) 1 and 2 only

EXPLANATION

High-powered money forms the base for credit creation, directly influenced by RBI.

High-Powered Money: Comprises currency in circulation and bank reserves with RBI. Time deposits are excluded.

12. ANS: c) 1, 2, and 3

EXPLANATION

Domestic and global economic policies jointly shape bond markets.

Factors Affecting Bond Yields: RBI policies, inflation, and global monetary trends (like US Federal Reserve actions) significantly influence yields.

13. ANS: b) 1 only

EXPLANATION

Legal tender laws vary by denomination and usage, influencing currency acceptance.

Legal Tender: Must be accepted for debt repayment. Coins are limited legal tender, while banknotes are unlimited. People can refuse to accept coins beyond a certain limit. For eg. 1 crore rupees in One rupee coins.

14. **ANS:** b) 1, 2, and 3 only

EXPLANATION

Near money complements cash by providing liquidity for quick conversion.

Near Money: Includes assets like fixed deposits and treasury bills, which are liquid but not mediums of exchange. They are excluded from M1.

15. **ANS:** a) 1, 3, and 4 only

EXPLANATION

Barter's inefficiency highlighted the necessity of standardized money.

Barter System: Required a double coincidence of wants, was inefficient in large economies, and led to money's introduction. It did not eliminate the need for a medium of exchange.