

(Money and Financial Markets)

(Option-II)

1. Choose the correct answers : **(any six)**

1×6=6

- (i) Which of the following is the most liquid measure of the money supply ?
(a) M4
(b) M3
(c) M2
(d) M1
- (ii) Who regulates the money supply in India ?
(a) The Government of India
(b) Commercial Banks
(c) Reserve Bank of India
(d) Planning Commission
- (iii) Which one is included in the primary function of money ?
(a) Medium of exchange
(b) Measure of value
(c) Both (a) and (b)
(d) Store of value
- (iv) Monetary policy is related with
(a) Public expenditure
(b) Taxes

- (c) Public debt
(d) Open market operations
- (v) Narasimham Committee was related to which of the following reforms ?
(a) Higher education reforms
(b) Tax structure reforms
(c) Banking structure reforms
(d) Planning implementation reforms
- (vi) Which of the following is a step that the central bank will take to encourage greater investment in the economy ?
(a) It will look to increase the cash reserve ratio
(b) It will look to reduce the cash reserve ratio
(c) It will look to increase the bank rate
(d) It will look to sell the government securities in the open market
- (vii) _____ is a market for lending and borrowing of short-term funds.
(a) Money market
(b) Primary market
(c) Capital market
(d) Secondary market
- (viii) Primary capital markets are the platform, where
(a) new securities are issued

- (b) new securities are sold
- (c) new securities are borrowed
- (d) Both (a) and (b)
- (ix) Which of the statements gives a true picture of the effect of the central bank selling securities in the market ?
 - (a) The credit creation capacity of commercial banks will fall.
 - (b) The credit creation capacity of commercial banks will rise.
 - (c) The credit creation capacity of commercial banks may rise or fall.
 - (d) There is no effect on the credit creation capacity of commercial banks.
- (x) The monetary policy of India is framed by
 - (a) The Government of India
 - (b) The Reserve Bank of India
 - (c) The State Bank of India
 - (d) Planning Commission

2. Answer the following questions : **(any five)**

2×5=10

- (i) What are the main components of high-powered money ?
- (ii) What is derivative market ? What are its benefits ?

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- (iii) Distinguish between primary market and secondary market.
- (iv) Write two objectives of monetary policy.
- (v) Write the meaning of financial market.
- (vi) Mention two limitations of bank rate policy of the central bank.
- (vii) What is meant by legal tender money ?

3. Answer the following questions : **(any six)**

5×6=30

- (i) What are the sources of interest rate differentials ?
- (ii) "Money is what money does." Explain.
- (iii) In what ways, selective credit controls are superior to traditional monetary weapon ?
- (iv) Discuss briefly the various objectives of bank's portfolio management.
- (v) What is moral hazard ? Give two examples of moral hazard. 2+3=5
- (vi) Briefly discuss the role of near money in an economy.
- (vii) What is token money ?
- (viii) Discuss briefly the features of a financial market.

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Contd.

(ix) What is a bank's balance sheet ? Briefly explain its components. 1+4=5

(x) What is standard money ?

4. Answer the following questions : **(any two)**
10×2=20

(i) Discuss the role of money in modern economy.

(ii) Explain the main constituents of money market.

(iii) Distinguish between quantitative and selective methods of credit control. Explain the selective credit control measures. 3+7=10

(iv) Explain in detail the determinants of money supply.

5. Answer the following questions : **(any one)**
14×1=14

(i) Explain the functions of a central bank.

(ii) Discuss the need of a sound banking system in a developing country.

(iii) What factors influence demand for and supply of savings ? Determine market rate of interest in an economy with the help of saving and borrowing schedule. 4+10=14