



CHAPTER -13-MONEY AND BANKING

ASSERTION- REASON QUESTIONS

Read the following statements Assertion (A) and Reason (R). Choose the correct alternatives given below:

1. 1. Assertion (A): To boost the falling demand in the economy. Reserve bank of India recently reduced repo rate and bank rate.
Reason (R): Decrease in repo rate and bank rate causes decreases in the rate of interest which leads to rise demand of credit because of which more money flows into the economy, purchasing power of people increases. Thus, aggregate demand rises and deficient demand is corrected.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true

2. Assertion (A): Anything will be called money if the law of country proclaims it to be money. It will be commonly accepted measure of value as it will be endowed with legal tender power (Limited and unlimited). Thus "money is what the law says it is"
Reason (R): Limited legal tender money can be accepted up to a certain limit. For example, in India, coins up to Rs1000 only (as per coinage bill, August 2011) can be accepted legally in payment. All currency notes have unlimited legal tender.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true

3. Assertion (A): Money supply is a flow concept.
Reason (R): Money Supply always measured at a particular point of time.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true

4. Assertion (A): The reserve bank of India had in March 2020 offered a three months moratorium on loans enabling borrowers to defer repayment on EMI and other loans.
Reason (R): The loan moratorium was aimed at providing borrowers relief aimed the economic impact of the covid-19 pandemic.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
5. Assertion (A): Currency held by public is a monetary liability of central bank.
Reason (R): Central bank controls credit, whereas commercial banks create credit with currency held by public.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
6. Assertion – Demonetization was the step taken by the Government of India in order to tackle the problems of corruption, black money, terrorism and circulation of fake currency in the Indian Economy.
Reason– Demonetization has ensured improved tax compliance in India over the period of time.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
7. Assertion – Supply of money consists of currency held by the people and net demand deposits held by the Commercial Banks
Reason – Supply of money is the quantity of money over a period of time.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true

8. Assertion – Credit multiplier is inversely related to CRR and is the reciprocal of CRR.
Reason – In times of inflation, RBI raises the CRR to control money supply in the economy.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
9. Assertion – M2 and M4 include saving deposits of post office savings organisations in India.
Reason - M1 is most liquid and easiest for transactions whereas M4 is least liquid of all.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
10. Assertion – The monetary policy rests with RBI in India which controls credit and money supply in the economy.
Reason – To combat excess demand in the economy, RBI increases the margin requirement, one of the important qualitative measures of the monetary policy.
Alternatives:
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is the not correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false
(d) Assertion (A) is false but Reason (R) is true
11. Assertion (A): Economic exchanges without the mediation of money are referred to as barter exchanges.
Reason (R): Demand Deposits are the part of M1.
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion(A)
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.
12. Assertion (A): Total quantity or stock of money available in the economy at particular point of time is known as money supply.
Reason (R): Demand deposit is not the part of money supply.
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(R)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion(A)
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.

13. Assertion (A): M_1 is Most liquid of money supply.
Reason (R): $M_1 = C + DD + OD$
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
 - Both Assertion (A) and Reason (ii) are true and Reason (R) is the correct explanation of Assertion(A)
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
14. Assertion (A) The lender of last resort is one of the important function of RBI Reason (R) RBI uses the lender of last resort function to save commercial bank during emergency.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion(A)
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
15. Assertion (A): All the commercial bank is a financial institution' Reason (R): All financial institutions are banks.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion(A)
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion(A)
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
16. Assertion (A): Money Multiplier = $1/LRR$
Reason (R): Lower the LRR higher the value of Money Multiplier and vice-versa.
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.
17. Assertion (A): The RBI controls the money supply in the economy in various ways.
Reason (R): The tools used by the Central bank to control money supply can be quantitative or qualitative
- Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 - Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
 - Assertion (A) is true but Reason (R) is false.
 - Assertion (A) is false but Reason (R) is true.

18. Assertion (A): currency issued by the central bank can be held by the public Known as Monetary base.
Reason (R): It consists coins and paper currency.
(a) Both Assertion (A) and Reason (RR) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true
19. Assertion (A): Commercial Bank acts as a banker to the Government
Reason (R): Reserve Bank is the only institution which can issue currency
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A)
(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.
20. Assertion (A): Money creation is the main function of Commercial banks.
Reason (R): How many times the total deposit would be of the initial deposit is known as Money Multiplier.
(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion.
(c)Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.
21. Assertion(A): Commercial Bank contribute to Quantum of money supply in the economy through credit creation
Reason(R): As they have the note issuing authority.
Assertion (A) and Reason (R). Choose one of the correct alternatives given below:
(a) Assertion and Reason both are correct, statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.
22. Assertion (A): LRR represents the minimum reserve ratio essential to be maintained by banks.
Reason: (R) Bank create deposits in the process of making loans to their customers.
(a) Assertion and Reason both are correct, statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.

23. Assertion (A)- when CRR is increased, credit creation capacity of commercial banks reduces.
Reason (R)- with increase in reserve ratios, banks have less funds available for loans.
(a) Assertion and Reason both are correct, statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.
24. Assertion (A)-Open market operations are used to influence money supply in the economy.
Reason: (R) Central bank sells government securities to increase the flow of credit in the economy.
(a) Assertion and Reason both are correct, statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.
25. Assertion: The Central Bank is also known as the bank of issue.
Reason: The Central Bank enjoys the sole monopoly of issuing currency to ensure control over volume of currency and money supply.
(a) Assertion and Reason both are correct, statements and Reason is correct explanation for Assertion.
(b) Assertion and Reason both are correct statements but Reason is not correct explanation for Assertion.
(c) Assertion is true but Reason is false.
(d) Assertion is false but Reason is true.
26. Assertion (A)- RBI gives licence to commercial banks and supervise them.
Reason (R)- RBI is the largest bank of country.
(a) both (A) & (R) are true and (R) is correct explanation of (A)
(b) both (A) & (R) both are true and (R) is not correct explanation of (A)
(c) (A) is true but (R) is false
(d) (A) is false but (R) is true
27. Assertion (A)-Money supply is a flow concept.
Reason (R)- Money supply refers to total currency circulation at a point of time.
(a) both (A) & (R) both are true and (R) is correct explanation of (A)
(b) both (A) & (R) both are true and (R) is not correct explanation of (A)
(c) (A) is true but (R) is false
(d) (A) is false but (R) is true

28. Assertion (A)-Governor of RBI gives advises to central government regarding about tax, expenditure related decisions.
Reason (R)- It is essential for the government to follow the advises of RBI.
(a) both (A) & (R) both are true and (R) is correct explanation of (A)
(b) both (A) & (R) both are true and (R) is not correct explanation of (A)
(c) (A) is true but (R) is false
(d) (A) is false but (R) is true
29. Assertion (A)- Credit creation process increases the money supply in economy.
Reason (R)- Through the credit creation process commercial banks can distribute loans many times as compare to their primary deposits.
(a) Both (A) & (R) both are true and (R) is correct explanation of (A)
(b) Both (A) & (R) both are true and (R) is not correct explanation of (A)
(c) (A) is true but (R) is false
(d) (A) is false but (R) is true
30. Assertion (A)-Settlement of liabilities of commercial banks is done by RBI.
Reason (R)- RBI holds the accounts of all commercial banks and commercial banks keep funds in it essentially
(a) Both (A) & (R) both are true and (R) is correct explanation of (A)
(b) Both (A) & (R) both are true and (R) is not correct explanation of (A)
(c) (A) is true but (R) is false
(d) (A) is false but (R) is true

KEY/ANSWER SHEET

1	2	3	4	5	6	7	8	9	10	11
A	A	C	A	D	B	D	A	A	A	B
12	13	14	15	16	17	18	19	20	21	22
C	A	A	C	A	A	A	D	B	C	B
23	24	25	26	27	28	29	30			
A	C	A	C	D	C	A	B			

**PREPIRED BY : PGT ECONOMICS OF BHUBANESWAR, GUWAHATI,
KOLKATA, RANCHI, SILCHAR AND TINSIKIA REGION.**

VETTED BY :RANCHI REGION