

Banking Model Questions - JCI



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1. Consider the following statements about nationalisation of banks.

1. The nationalisation of banks were first done in 1969.

2. Indira Gandhi was the finance minister during the first nationalisation.

3. Bank Nationalisation was done three times in India.

Which of the given statement(s) is/are correct?

A 1 only

B 1 and 2 only

C 1 and 3 only

D 1, 2 and 3

Solution

- Bank Nationalisation was done two times in India. It was during the year 1969 and 1980. So statement 3 is incorrect.
- 14 banks with deposit more than 50 crore were nationalized in 1969.
- First nationalisation takes place on July 19, 1969.
- V. V Giri was the President of India during the first nationalisation.
- Indira Gandhi was the **both the Prime Minister and Finance Minister** during the first nationalisation.

2. Which of the following statements are TRUE?

1. A second round of bank nationalisation happened in the year 1980.
2. Rajiv Gandhi was the Prime Minister of India during the second round of bank nationalisation.
3. A total of 6 banks were nationalised in the year 1980.
4. R Venkataraman was the Finance Minister during the bank nationalisation of 1980.

A 1,2 and 4

B 1,2,3 and 4

C 1,3 and 4

D 2,3 and 4

Solution

- Indira Gandhi was the Prime Minister of India during the second round of bank nationalisation.

Second round of bank nationalisation

- A second round of bank nationalisation happened in the year 1980.
- A total of 6 banks were nationalised in the year 1980.

- R .Venkataraman was the Finance Minister during the bank nationalisation of 1980.Later he became the 8th President of India.

3. State bank of India Act was passed in the year?

A 1954

B 1955

C 1956

D 1957

Solution

- State bank of India Act was passed in 1955.
- This Act was regulated to form a State Bank in India.
- In this Act, the Imperial Bank of India was transformed into the State Bank of India.
- The objective of this Act was to build a strong commercial bank under the control and supervision of the government.

4. In most countries which organisations controls the banking system ?

A Central bank

B Commercial bank

C Investment bank

D World bank

Solution

- The Reserve Bank of India (RBI) serves as the Central Bank.
- There are many things for which the RBI is responsible such as controlling inflation, regulating banking system, issuing bank notes, controlling credit, and monetary policy etc.

5. Which of the following is true about the functions performed by RBI ?

1. It is the Bank of Issue
2. It acts as banker to the government
3. It is the banker of other banks
4. It regulates the flow of credit

A Both 1, 2

B Both 3,4

C All the Above

D None of the above

Solution

- The Reserve Bank of India, as the central bank of the country, functions as the sole bank with the right of issuing paper notes, it acts as banker to the Government, it is the banker to other bank and it regulates the flow of credit.
- RBI through its monetary policy controls the credit and money supply in the economy.
- This is generally done to control inflation and deflation. RBI maintains the foreign exchange reserves in India.
- It controls the forex of our country and performs various operations to stabilise Indian currency in foreign markets.

- RBI maintains the accounts of central and state government, makes payment and collect receipts on behalf of the government and provide advances.

6. Which of the first subsidiary bank of State Bank of India to do whole computerization of all its branches ?

A State Bank of Patiala

B State Bank of Hyderabad

C State Bank of Saurashtra

D State Bank of Travancore

Solution

- State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore were subsidiary of the State bank of India.
- The merger of the five associate banks, with the SBI was given approval by the Union Cabinet on 15 June 2016.
- State Bank of Patiala is the first subsidiary bank of State Bank of India to do whole computerization of all its branches .

7. Which bank came into existence in the year 1921 when three banks namely, Bank of Bengal (1806), Bank of Bombay (1840) and Bank of Madras (1843) were reorganized and amalgamated to form a single banking entity?

A Punjab National Bank

B Imperial Bank of India

C State Bank of India

D Reserve Bank of India (RBI)

Solution

- The Imperial Bank of India (IBI) was one of the oldest and the largest commercial bank in India, and was subsequently renamed and nationalised as the State Bank of India in 1955.
- Initially, as per its royal charter, it acted as the central bank for India prior to the formation of the Reserve Bank of India (RBI) in 1935.
- The Presidency Banks were the Bank of Bengal, established on 2 June 1806, the Bank of Bombay (incorporated on 15 April 1840), and the Bank of Madras (incorporated on 1 July 1843). The Imperial Bank was 80% privately owned while the rest were owned by the state.

8. In 1955, the Reserve Bank of India acquired the controlling interests of the and SBI was created by an act of parliament.

A Bank of Hindustan

B Imperial Bank of India

C United India Bank

D None of these

Solution

- The Imperial Bank of India (IBI) was one of the oldest and the largest commercial bank in India, and was subsequently renamed and nationalised as the State Bank of India in 1955.
- Initially, as per its royal charter, it acted as the central bank for India prior to the formation of the Reserve Bank of India (RBI) in 1935.
- In 1955, the Reserve Bank of India acquired the controlling interests of the imperial Bank of India and SBI was created by an act of parliament.

9. Central Cooperative bank is a financing bank of -----

A Central Cooperative Societies

B Apex Societies

C Miscellaneous Societies

D Primary Societies

Solution

- District Co-operative Bank is the Financing bank Of Primary Co-operative Societies in the district
- District Co-operative Bank functions with whole district as Its area of operation
- All primary co-operative societies as can its members.
- It is also known as financing bank

10. Which of the following statements is/are incorrect?

1. DCB is the middle of the three tier structure of short term of agriculture credit
2. The first district Cooperative bank in india was established at jabalpur,madhyapradesh in the year 1912
- 3.The area of operation of central cooperative bank will be normally in one district
- 4.District Cooperative bank issue Short term loan and medium term loan

A 2 and 4 only

B 2 and 3 only

C 3 only

D 1,2 and 4 only

Solution

- DCB is the middle of the three tier structure of short term of agriculture credit
- The area of operation of central cooperative bank will be normally in one revenue district

- . The first district Cooperative bank in india was established at jabalpur, madhya pradesh in the year 1912
- District Cooperative bank issue Short term loan and medium term loan
- One Central Co-operative Bank for each district is the pattern followed in the state.
- In kerala, there is two tier structure SCB and Primary Societies

11. From the following statement, which statement is viable to the central cooperative bank?

1. The share capital when compared to the total working capital is too small

2.They failed in mobilising deposits; instead they depended on the apex bank.

3.Banking and non banking activities were mixed which was against the banking principles.

4.To act as a balancing center for resources for primary societies

A Both 1 and 3

B Both 1 and 4

C 4 only

D All of the above

Solution

- Co-operative Central Bank seemed to be not viable because of the following weaknesses:-
- The share capital when compared to the total working capital is too small.

- They failed in mobilising deposits; instead they depended on the apex bank.
- Banking and non banking activities were mixed which was against the banking principles.
- The loans were advanced towards commercial activities
- Small sized societies were not economically able, the amount of bad debt was increasing.
- The central bank itself sometimes became uneconomical.

12. Which Committee recommended one Central Bank to one district?

A AIRCRC

B MACLAGAN COMMITTEE

C GORWALA COMMITTEE

D ROYAL COMMISSION OF AGRICULTURE

Solution

- All India Rural Credit Survey Committee otherwise called Gorwala committee
- All India Rural Credit Survey Committee recommended one Central Bank to one district.
- All India Rural Survey Committee put forward to increase loan business of at least one crore.
- AIRCSC suggested the bank advances for short- term as well as medium-term requirement.
- It provides finance for purchase of cattle, carts, digging of wells, erection of pump set etc.
- The period for repayment of medium-term loans is five years.

13. **Which Committee recommended the formation of State Cooperative banks?**

A MacLagan committee of 1914

B Calvert committee of 1928

C All india rural credit survey committee of 1951

D All of the above

Solution

- The Mac Lagan Committee of 1914, Calvert Committee of 1928 and All India Rural Credit Survey Committee of 1951 recommended the formation of State Co-operative Banks
- Keral State Co-operative Bank is the Apex Bank of the Co-operative Credit Sector, which caters to the need for short term and medium term loans.
- The Moolam Thirunal Rama Varma enacted Travancore Co-operative Societies Act in the year 1914
- The Trivandrum Central Co-operative Bank was registered under the Act in 1915
- Its started functioning as a bank on 18 January 1916

14. Samridhi is the Credit Card issued by __

A Kerala Bank

B RBI

C NABARD

D Urban Bank

Solution

- The Kerala bank issues Credit Cards to the customers.
- The Credit Card is named as SAMRIDHI CARD.
- The bank receives finance from NABARD at concessional rates and it is distributed to District Co-operative Banks as short- term and medium-term loans.
- Kerala bank provide Credit for non agricultural purpose is also given by the bank.

15. Which instrument is traded under Open Market Operations (OMO) in India ?

A Bonds

B Stocks

C Currency

D Government securities

Solution

- The RBI uses Open market operations (OMOs) in order to adjust the rupee liquidity conditions in the market on a durable basis.
- When the Reserve Bank feels that there is excess liquidity in the market, it resorts to the sale of government securities, thereby sucking out the rupee liquidity.

16. Read the following statement which is not related to Kerala State cooperative bank.

1. Mutual arrangement scheme Kerala (MASK) which is introduced in the year 1969 by Kerala State cooperative bank

2. Principle state partnership fund is maintained by Kerala bank which is an apex society which received a fund from state government under section 43 of KCS act

3. Kerala bank which act as the connecting link between NABARD and a cooperative credit societies in Kerala

4. Kerala bank need permission of RCS and RBI to open a branches for carrying business.

☐ A Both 1 and 2

☐ B Both 2 and 3

☐ C 1, 2 and 3

☒ D None of these

Solution

- Kerala bank need permission of RCS and RBI to open a branches for carrying business

- Mutual arrangement scheme Kerala (MASK) which is introduced in the year 1969 by Kerala State cooperative bank
 - The participant bank shall maintain a current account with the head office branches of Kerala bank at Trivandrum
 - Kerala bank which act as the connecting link between NABARD and a cooperative credit societies in Kerala
 - The participants bank have to maintain sufficient balance in their mask account with the Kerala bank
 - According to the Kerala bank shall maintain such a fund as per section 44 of KCS acted with the money received from the state government for the following purpose
1. For direct purchase of share in the affiliated Society.
 2. For providing money to member institution to enable them to establish a subsidiary State partnership fund
 3. To repay any due to the government

17. Which section of The Banking Regulation Act 1949 deals with the Disposal of non-banking assets ?

A Section 12 of The Banking Regulation Act 1949

B Section 9 of The Banking Regulation Act 1949

C Section 14 of The Banking Regulation Act 1949

D Section 20 of The Banking Regulation Act 1949

Solution

- Disposal of non-banking assets.—Notwithstanding anything contained in section 6, no banking company shall hold any immovable property howsoever acquired, except such as is required for its own use, for any period exceeding seven years from the acquisition thereof or from the commencement of this Act, whichever is later or any extension of such period as in this section provided, and such property shall be disposed of within such period or extended period, as the case may be:
- Provided that the banking company may, within the period of seven years as aforesaid, deal or trade in any such property for the purpose of facilitating the disposal thereof:
- Provided further that the Reserve Bank may in any particular case, extend the aforesaid period of seven years by such period not

exceeding five years where it is satisfied that such extension would be in the interest of the depositors of the banking company.

18. Which section of The Banking Regulation Act 1949 deals with the Prohibition of common directors ?

A Section 16 of The Banking Regulation Act 1949

B Section 14 of The Banking Regulation Act 1949

C Section 13 of The Banking Regulation Act 1949

D Section 18 of The Banking Regulation Act 1949

Solution

- Section 16 of The Banking Regulation Act 1949 deals with the Prohibition of common directors.
- No banking company incorporated in India shall have as a director in its Board of directors any person who is a director of any other banking company.

19. “Banker” includes \(\textit{______}\)

A

Any person acting as an employee of any bank and any post office saving bank

B

Any person acting as a banker and any post office saving bank

C

Any person acting as an agent of any bank and any post office saving bank

D

Any person acting as a Managing Director of any bank and any post office saving bank

Solution

- The Banking Regulation Act, 1949, defines a banker, which transacts the business of banking in India.
- A banker deals in the funds of the general public as well as of organizations and institutions.
- This Act was enacted to govern the banking business in India and defines the rules and regulations to be followed by the banks.

20. Which is NOT correct about the “Promissory Note” \(\textit{______}\)

A It contains a conditional undertaking

B It contains the amount mentioned on it

C It is an instrument in writing

D It is signed by the maker

Solution

- A promissory note is a legal and a financial instrument that is written between three financing parties: the maker, the lender, and the payee/the borrower.
- This note contains terms of the issuance, details of the debt like the circumstances of the loan, who the bearer is and from whom, the maturity date, the amount payable with interest or not, and more.
- It is a written promise by the lender assuring the borrower that they can avail money from the lender as specified after agreement. The maker can be the lender too.

21. – is the main agency which is supplies long-term credit facilities to the rural sector ,mainly for farmers

A KSCARDB

B PCARDB

C RURAL BANKS

D NABARD

Solution

- PCARDB is the mean agency which is a place in long-term credit facilities in the rural sector
- SCARDB Provident fund for issue of all type of loan by PCARDB
- Debentures are the main source of funds for the agriculture and rural development bank
- Gehan implemented in the year 1984

22. _____ are the main source of funds for the agriculture and rural development bank

A Commercial papers

B Bonds

C Debentures

D Agricultural tax

Solution

- Debentures are the main source of funds for the agriculture and rural development bank
- Technical enquiry report is the report is submitted by the field, the inspecting officer to the board of directors for sanctioning the amount of loan of an applicant mortgage in his property
- Discharge voucher of file is kept by PCARDB long-term loans sanctioned to members which contain documents from the application to the sanction of the loan

23. **Who defined -A bank "collects money from those who have it to spare or who are saving it out of their incomes and it lends this money to those who require it."**

A Banking regulation Act

B F E Perry

C Crowther

D None of these

Solution

- According to Crowther, a bank "collects money from those who have it to spare or who are saving it out of their incomes and it lends this money to those who require it."
- The Banking Regulation Act 1949 defines the term banking as "accepting for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise, and withdrawable by cheque, draft, and order or otherwise."
- According to F.E Perry "The bank is an establishment which deals in money, receiving it on deposit from customers, honouring customer's drawings against such deposits on demand, collecting

cheques for customers and lending or investing surplus deposits until they are required for repayment.

24. The German Word Bank which means__

A heap or mound

B Table or bench

C Money

D None of these

Solution

- The word Bank seems to have been derived from Italian word Banco.
- It denotes an accumulation of either stock or money.
- Another group of persons who believes that the word bank has been derived from the word 'bancus' (Latin word).
- The German word Bank which means heap or mound.

25. Which of the following statements is/are related to banking?

1.A bank is an institution which accepts deposits from the public and makes it available for those who need it

2.A bank helps in the remittance of money from one place to another.

3.Agency and utility services is the one of the features of a bank

A 1 & 2

B 2 & 3

C 3 only

D All of the above

Solution

FEATURES OF A BANK

- Dealing in Money
- Individual / Firm / Company
- Acceptance of Deposit
- Giving Advances
- Payment and Withdrawal
- Agency and utility Services
- Banking Business

- Profit and Service Orientation
- Connecting Link between borrowers and lenders of money

.

26. Banks which will not provide term loan, working capital loan, Agriculture loan, all comes under ____ type of banking system

A universal banking

B unit banking

C Mixed banking

D Narrow banking

Solution

CHAIN BANKING

When a small group of individuals control three or more banks.

UNIT BANKING

Unit banking is a system of banking in which the operations of a bank are confined in general for a single office situated in a particular place.

- Delocalised banking is another name of Branch Banking.

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27. Which of the following statement is related to birthplace of Banking system is/are incorrect?

1. Unit Banking.-America.

2. Chain banking - america

3. Group Banking - america

A 1 & 2

B 1 & 3

C 3 only

D None of these

Solution

Birth place of Banking system

1. Unit Banking.-America.

2. Chain banking - America

3. Group Banking - America

1. Mixed banking - Germany

.

28. **CHAIN BANKING** means__

A Banks are linked with bigger banks by a system

B

Two or more separately incorporated banks are brought under the control of a holding company

C

Small group of individuals control three or more banks.

D

None of these

Solution

CHAIN BANKING When a small group of individuals control three or more banks.

GROUP BANKING In this system two or more separately incorporated banks are brought under the control of a holding company or a common group.

CORRESPONDENT BANKING: Banks are linked with bigger banks by a system

29. which of the following statement is/ are incorrect ?

1.Unit banking is developed in USA

2.The bigger banks withh which deposits are made called correspondant banks

3.Commercial banks grant loan term loans to industry

A 1 & 3

B 1 & 2

C 2 only

D None of these

Solution

1.Unit banking is developed in USA

2.The bigger banks withh which deposits are made called correspondant banks

3.Commercial banks grant loan term loans to industry

4.Mixed banks are seen in germany

30. One of the following statement is not related to mixed banking?

A

Mixed banking is a banking system in which the banks combine both deposit banking and industrial banking

B

Mixed banks are mainly seen in germany

C

Mixed banks grant long term loans to industry

D

Mixed banking other wise called delocalised banking

Solution

- Mixed banking is a banking system in which the banks combine both deposit banking and industrial banking
- Mixed banks are mainly seen in germany
- Branch banking other wise called delocalised banking
- Investment bank also provide long term loans to industries *

31. Bank operations specified in a area with a single uniti is called - ____

A unit banking

B Mixed banking

C Investmeent banking

D Exchange banks

Solution

- Exchange banks deals in friegn exchange services
- Unit banking is developed in America
- Examples of investment banks are LIC, ICICI etc
- Big banks will acceopt deposit and lend money to Unit bank

32. Bank accept deposit lend only for short period up to one year.

which type of banking system?

A Pure Banking

B Univeersal banking

C Unit banking

D Investment banking

Solution

- Bank accept deposit lend only for short period up to one year is called Pure banking
- Pure banking is also called Deposit banking
- Bank which are engaged in different kind of activities are called Universal banking
- investment banks were originated in germany

33. **Importer Bank Issued by** __

A Bank guarantee

B Letter of comfort

C Letter of credit

D None of these

Solution

- Letter of credit is an important document in foreign trade.
- A banker certifies the credit worthiness of his customer.
- Letter of credit requires some form of collateral, usually in the form of a cash deposit or other financial instrument

34. One among of the following statement is/are not considered as General utility services ?

1. Issue of Travellers cheque

2. Collection and dissemination of Information

3. Issue of ATM cards

A 1 only

B 2 & 3

C 1 , 2 & 3

D None of these

Solution

A commercial bank provides the following vital general utility services.

- It issues letters of credit, gift cheques, traveller's cheques, and other similar documents.
- It handles foreign exchange transfers, assisting exporters and importer
- Commercial banks offer merchant banking technology leasing services

35. Banks underwrite the securities issued by the government, public or private bodies is known as _

A Underwriting

B Merchant banks

C Lease finance

D Bancassurance

Solution

Lease Finance:- person acquires the use of an asset by paying a pre-determined amount called “rental” periodically over a period of time.

Bancassurance is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base

Merchant banking:- Merchant banking divisions of commercial banks offer a wide range of services like financial, technical and managerial services.

36. Banks issue traveller's cheques to facilitate their customers to travel without the fear of theft or loss of money is known as __

A Treasury Cheque

B Travellers cheque

C Term cheque

D Travelogue cheque

Solution

- Travellerss cheques is the one of the general utility services of commercial banks
- It Comes under Secondary Services
- Issue of traveller's cheques:- Banks issue traveller's cheques to facilitate their customers to travel without the fear of theft or loss of money.

37. Which of the following statement is not an general utility services of a commercial bank?

A Customer enable withdraw money of 12 hours

B

Banks collect important information relating to trade, commerce, industry money and banking and publish the same in journals and bulletins.

C

Banks deal in the business of foreign currencies to enable foreign trade.

D

customers can keep their valuables and important documents for safe custody.

Solution

option A is false

Issue of ATM cards:- Now a days all banks started issuing ATM cards to their customers to enable them to withdraw money during 24 hours a day.

Collection and dissemination of information:- Banks collect important information relating to trade, commerce, industry money and banking and publish the same in journals and bulletins.

38. The term "Lease" means _

A

an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client bas

B

a person acquires the use of an asset by paying a pre-determined amount called “rental” periodically over a period of time.

C

a usually fixed periodical return made by a tenant or occupant of property to the owner for the possession and use

D

None of these

Solution

Lease Finance is one f the general utility of commercial bank

Lease Finance:- Modern commercial banks provide lease finance to industries.

- Lease is a mechanism by which a person acquires the use of an asset by paying a pre determined amount called “rental” periodically over a period of time.

Bancassurance is an arrangement between a bank and an insurance company allowing the insurance company to sell its products to the bank's client base

39. The term book debts and receivables-is related to which type of general utility services?

A Housing finance

B Factoring finance

C Factoring services

D Underwriting

Solution

The term Books and debts related to Factoring services

Factoring services:- Modern commercial banks provide factoring services to business concern by purchasing their book debts and receivables for the purpose of collection, management and for providing other similar services.

Housing finance:- Commercial banks provide housing finance facilities to individuals and institutions engaged in the construction of residential houses at a concessional rate of interest.

40. **Factoring services means** __

A

business concern by purchasing their book debts and receivables for the purpose of collection, management

B

a person acquires the use of an asset by paying a pre-determined amount called “rental” periodically over a period of time.

C

divisions of commercial banks offer a wide range of services like financial, technical and managerial services.

D

None of these

Solution

Merchant banking:- Merchant banking divisions of commercial banks offer a wide range of services like financial, technical and managerial services.

Lease Finance:- Modern commercial banks provide lease finance to industries. Lease is a mechanism by which a person acquires the use of an asset by paying a pre-determined amount called “rental” periodically over a period of time.

41. **Housing finance is one of the major general utility function of ____**

A Government

B Private banks

C Commercial Banks

D RBI

Solution

Commercial Bank as an agent

- Serving as a customer-owned administrator, trustee, or executor.
- Providing clients with assistance with tax returns, tax refunds, and other related responsibilities.
- Providing making payments for things like premiums and loan payments.
- Providing processing cheques, drafts, bills, and other financial transactions electronically.

42. which of the following statement is/are incorrect ?

1. Bill of exchange is the primary function of commercial bank
2. A bank provides locker facilities to the customers to keep their valuables or documents safely is the secondary function
3. It is an advance given to a customer by keeping the current account to overdraw up to the given limit is the general utility function of commercial bank

A 1 only

B Both 1 & 2

C Both 1 & 3

D 3 only

Solution

Over draft - It is an advance given to a customer by keeping the current account to overdraw up to the given limit is the general utility function of commercial bank

Over draft only provides to its customer of the bank

overdraft is an agency function

Bill of exchange is the primary function of commercial bank .It comes under granting loans and advances.

43. Which is a “Promissory Note” ?

A

I promise to pay B Rs. 500 and to deliver to him my black horse on 1st January next

B

I promise to pay B Rs. 500 seven days /after my marriage with C

C

“I acknowledge myself to be indebted to B in Rs. 1, 000, to be paid on demand, for value received”

D

I promise to pay B Rs. 500 on D’s death, provided D leaves me enough to pay that sum

Solution

- A promissory note may be a negotiable instrument if it is an unconditional promise in writing made by one person to another, signed by the maker, engaging to pay on demand to the payee, or at fixed or determinable future time, a sum certain in money, to order or to bearer.
- The law applicable to the specific instrument will determine whether it is a negotiable instrument or a non-negotiable instrument.

44. What are the liabilities of a collecting banker ?

A

To serve notice of dishonour on the customer so that customer can claim the amount from his debtors

B

To present cheque within a reasonable time else liable for damages

C

To handover the proceeds after the realisation without delay

D

All of the above

Solution

- Collecting banker is defined as the authority or banker who receives the bills, cheques, drafts, pay orders, etc., on behalf of the clients.
- The liabilities of collecting bankers and the role of collecting bankers are as agents of collection and holders of value.
- The liabilities of a collecting banker are to serve notice of dishonour on the customer so that customer can claim the amount from his debtors, to present cheque within a reasonable time else liable for damages, to handover the proceeds after the realisation without delay etc.

45. Where the holder of an instrument endorses it in a manner that does not incur any liability as an endorser, such endorsement is called as \(\textit{______}\backslash\)

A Sans recourse Endorsement

B Conditional endorsement

C Facultative endorsement

D Restrictive Endorsement

Solution

- In sans recourse endorsements, the endorser waives their liability for the completion of the endorsement.
- This means that even if the original agreement is not honoured, the endorser cannot be held responsible.
- To enact a sans recourse endorsement, the endorser includes a clause about this in the original document.

46. Instrument entitled to 'period of grace' is \(\textit{______}\)

A A bill or note payable on demand

B A cheque

C A bill or note in which no time is mentioned

D A bill or note payable 'after sight'

Solution

- Days of grace are three extra days which are given to drawee to pay the bill. But these days of the grace period are not given on bill of exchange when a bill needs to payable on demand.
- While in which no demand is made that is Usance promissory note & Usance bill of exchange.

47. How does the Reserve Bank of India utilize credit control as a tool of monetary policy?

- A** By directly controlling the government's fiscal policy
- B** By regulating the exchange rate of the national currency
- C** By managing the demand and supply of money in the economy
- D** By controlling the production levels of goods and services

Solution

Credit control is indeed an important tool used by the Reserve Bank of India as a major weapon of monetary policy.

The primary purpose of credit control is to manage the demand and supply of money in the economy

48. **What are the two types of credit control methods adopted by the Reserve Bank of India (RBI)?**

A Monetary method and fiscal method

B Direct method and indirect method

C Quantitative method and qualitative method

D Regulatory method and incentive-based method

Solution

Credit control is most important function of Reserve Bank of India. Credit control in the economy is required for the smooth functioning of the economy. By using credit control methods RBI tries to maintain monetary stability.

There are two types of methods:

Quantitative control to regulates the volume of total credit. Qualitative Control to regulates the flow of credit

Quantitative Measures:- 1.Bank Rate Policy 2.Open Market Operations
3.Cash Reserve Ratio 4.Statutory Liquidity Ratio

Qualitative Measures:- 1.Margin requirements 2.Consumer Credit Regulation 3.RBI Guidelines 4.Rationing of credit 5.Moral Suasion 6.Direct Action

49. **What is the Bank Rate, commonly known as the discount rate, in the context of monetary policy?**

A

The interest rate at which commercial banks lend money to their customers

B

The rate at which commercial banks borrow money from the central bank

C

The official interest rate at which the central bank charges on its loans and advances to commercial banks

D

The interest rate at which commercial banks borrow money from each other in the interbank market

Solution

The Bank Rate, also known as the discount rate, is the official interest rate at which the central bank in this case, the Reserve Bank of India) charges on its loans and advances to commercial banks.

50. Which among the following is Bank Rate primarily used for by the Reserve Bank of India?

A Lending money to customers

B Borrowing money from commercial banks

C Rediscounting approved bills held by commercial banks

D Regulating stock market transactions

Solution

Bank rate is the rate charged on the loans offered by the Central bank to the commercial banks without any collateral. It is increased at the time of inflation to reduce the money supply in the economy and vice versa.

Repo rate is the rate charged on the secured loans offered by the Central bank to the commercial banks that includes collateral. It is increased at the time of inflation to reduce the money supply in the economy and vice versa.

51. Which of the following statements are primary objectives of credit control measures?

1.Ensuring stability in the internal price level and attaining stability in exchange rates

2.Stabilizing the money market and eliminating business cycles

3.Maximizing income, employment, and output in a country

A 1 & 2

B 2 & 3

C 1 & 3

D All of the above

Solution

Importance of credit control

1. To obtain stability in the internal price level.
2. To attain stability in exchange rate
3. To stabilize money market of a country.
4. To eliminate business cycles-inflation and deflation by controlling supply of credit.

5. To maximize income, employment and output in a country.

52. Which of the following statement is related to outcome of a fall in the bank rate ?

A A decrease in lending rates, leading to decreased commercial activity

B An increase in lending rates, leading to increased commercial activity

C A decrease in lending rates, leading to increased commercial activity

D An increase in lending rates, leading to decreased commercial activity

Solution

A fall in bank rate will lowers the lending rates in the money market which in turn will stimulate commercial ability, for which more credit will be required from the bank. Thus, there will be expansion of the volume of bank credit.

According to the statement, a fall in the bank rate leads to a decrease in lending rates in the money market. This decrease in lending rates stimulates commercial activity, which in turn increases the demand for credit from banks, resulting in the expansion of the volume of bank credit

53. Which of the following is / are primary method used in open market operations by the central bank?

1. Issuing currency notes and coins 2. Directly lending to commercial banks

2. Buying and selling government securities in the money market

A 1 & 3

B 1 only

C 3 only

D None of these

Solution

open market operations involve the central bank purchasing and selling government securities in the money market. This action influences the liquidity in the market and serves as a tool for monetary policy. Option c accurately describes the primary method used in open market operations as mentioned in the statement.

The central bank will start purchasing securities in the open market from commercial banks and private individuals.

54. What does the Cash Reserve Ratio (CRR) represent for a commercial bank?

A

The ratio of reserves kept with the central bank to the total assets of the bank

B

The ratio of reserves kept with the central bank to the total deposits of the bank

C

The ratio of reserves kept with the central bank to the total loans disbursed by the bank

D

The ratio of reserves kept with the central bank to the total profits generated by the bank

Solution

Every commercial bank is required by law to keep a certain percentage of its deposits as reserves with the central bank known as cash reserve. Cash reserve ratio (CRR) is the ratio of reserves kept with the central bank in proportion to the total deposits of a commercial bank.

55. Which of the following statement is likely outcome when the Cash Reserve Ratio (CRR) is increased by the central bank?

A

Commercial banks increase their lending capacity, leading to expansion of credit in the country

B

Commercial banks decrease their lending capacity, leading to expansion of credit in the country

C

Commercial banks decrease their lending capacity, leading to contraction of credit in the country

D

Commercial banks increase their lending capacity, leading to contraction of credit in the country

Solution

- The central bank is empowered to increase or decrease the CRR depending upon the credit needs of the country. When the central bank feels that there is excess credit in the country, it will increase the CRR.
- When the CRR is increased, all the commercial banks in the country have to keep more cash with the central bank. This reduces the lending capacity of all the commercial banks, which will ultimately lead to contraction of credit in the country. When the central bank decreases the CRR, the reverse happens.

56. What does the Statutory Liquidity Ratio (SLR) require banks to maintain?

A A certain percentage of their total assets as cash reserves

B

A certain percentage of their demand and time liabilities as reserves in the form of cash, gold, and government securities

C

A certain percentage of their profits as reserves to cover potential losses

D

A certain percentage of their deposits as reserves to cover operational expenses

Solution

The Statutory Liquidity Ratio (SLR) mandates banks to maintain a certain percentage of their demand and time liabilities as reserves. These reserves can be held in the form of cash in hand, gold, central and state government securities, and balances in the current account with the Reserve Bank, State Bank, and its subsidiaries. Option b accurately describes the requirements of the SLR .



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