



Daily Subject wise Quiz Day 57 Economy VII (Online Prelims Test)

1) Which of the following statements is/are correct about Money

1. It serves as a medium of exchange, as a store of value, and as a unit of account.
2. It also functions as a unit of account, providing a common measure of the value of goods and services being exchanged.

Select the correct answers using the codes given below

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

Functions of Money

- Money is often defined in terms of the three functions or services that it provides.
- Money's most important function is as a medium of exchange to facilitate transactions.
- Without money, all transactions would have to be conducted by barter, which involves direct exchange of one good or service for another.
- In order to be a medium of exchange, money must hold its value over time that is, it must be a store of value.
- If money could not be stored for some period of time and still remain valuable in exchange.
- it would not solve the double coincidence of wants problem and therefore would not be adopted as a medium of exchange.
- Money also functions as a unit of account, providing a common measure of the value of goods and services being exchanged.
- Knowing the value or price of a good, in terms of money, enables both the supplier and the purchaser of the good to make decisions about how much of the good to supply and how much of the good to purchase.
- The demand for money is affected by several factors, including the level of income, interest rates, and inflation as well as uncertainty about the future.

2) Consider the following statements with respect to Monetary Aggregates

1. Money should reflect monetary assets and unique liquid liabilities of a specific set of financial intermediaries as a statistical construct.
2. Formula for Aggregate monetary resource is $M3 = M1 + \text{Net time deposits of post office savings}$.

Which of the above statements is/are correct?

- a. 1 only
- b. 2 only

- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

Monetary Aggregates

- On the institutional distinction between banks and other financial intermediaries, or on the functional qualities of monetary assets.
- The efficacy of the aggregates is likely to be affected by changes in banking practices and products.
- Money should reflect monetary assets and unique liquid liabilities of a specific set of financial intermediaries as a statistical construct.
- Since April 1977, four money supply measures have been published: M1, M2, M3, M4 which ranked assets in varying (decreasing) degrees of liquidity with extended institutional coverage of post offices and cooperative banks, which had begun a wide network to supplement commercial banks in their deposit and credit coverage, particularly after bank nationalization.
- Formulas for Monetary aggregates are

1. $M4 = M3 + \text{Total deposits with post office savings organisations (excluding national savings certificates)}$
2. $M3 = M1 + \text{Time deposits with commercial banks (Fixed deposits, Recurring deposits)}$
3. $M2 = M1 + \text{Savings deposits with post office savings banks}$
4. $M1 = \text{Currency (notes + coins) + Demand deposits}$

3) Consider the following statements with respect to Reserve Money (M0)

1. It is also known as High-Powered Money, monetary base, base money, etc.
2. $M0 = \text{Currency in Circulation} + \text{Bankers' Deposits with RBI} + \text{Other deposits with RBI.}$

Which of the above statements is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : a

Reserve Money (M0)

- The measures of money supply in India are classified into four categories M1, M2, M3, and M4 along with M0.
- This classification was introduced in April 1977 by the Reserve Bank of India.
- Reserve Money (M0): It is also known as High-Powered Money, monetary base, base money, etc.
- $M0 = \text{Currency in Circulation} + \text{Bankers' Deposits with RBI} + \text{Other deposits with RBI.}$
- It is the monetary base of the economy.

4) Consider the following statements with respect to Currency

1. It is money usually issued by a government and circulated within its jurisdiction.
2. The value of any currency fluctuates constantly in relation to other currencies.

Which of the above statements is/are correct?

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2

Answer : c

Currency

- Currency is a generally accepted form of payment, usually issued by a government and circulated within its jurisdiction.
- The value of any currency fluctuates constantly in relation to other currencies.
- The currency exchange market exists as a means of profiting from those fluctuations.
- Currency is a medium of exchange for goods and services.
- It is money, in the form of paper or coins, usually issued by a government and generally accepted at its face value as a method of payment.

5) Which of the following statements is/are correct about Call Money

1. It's money borrowed or lent on demand for a very short period of time.
2. When money is borrowed or lent for not more than 30 days it is known as Call money.

Select the correct answers using the codes given below

- a. 1 only
- b. 2 only
- c. Both 1 and 2
- d. Neither 1 nor 2



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Answer : a

Call Money

- It's money borrowed or lent on demand for a very short period of time.
- When money is borrowed or lent for more than a day and up to 14 days it is called call money.
- No collateral is required to cover transactions of this nature.
- **Term Money** - Deposits with maturity period beyond 14 days are generally referred to as the term money.