Sleepy Classes
Free. Regular. Quality.

PRE-Mix

(Compilations of the Multiple Choice Questions)

For

28th October 2021

Economy

Click here to watch the following questions on YouTube

Banking

1. **Consider the following statements with respect to NBFCs.**
   1. **NBFCs are registered under the Companies Act, 1956.**
   2. **NBFCs cannot accept demand deposits.**
   3. **NBFCs can issue cheques drawn on itself.**
   4. **NBFCs whose asset size is of ₹ 500 cr or more as per last audited balance sheet are considered as systemically important NBFCs.**

   Which of the above statements is/are correct?

   A. 1, 2 and 4 only

   B. 2 and 3 only

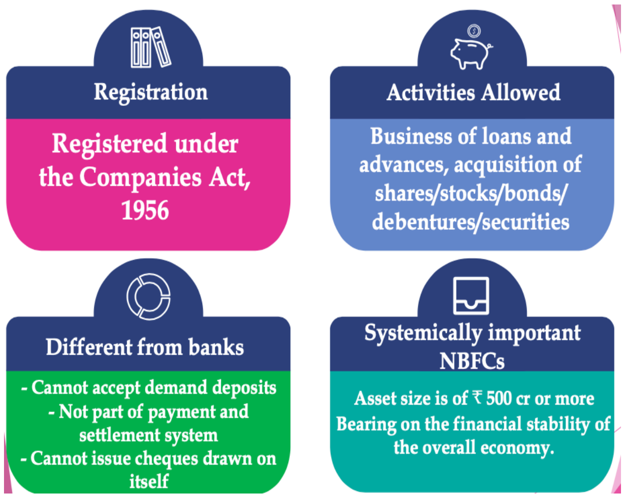
   C. 2, 3 and 4 only

   D. 1 and 4 only

   Answer: A

   Explanation

   - Nonbank financial companies (NBFCs), also known as nonbank financial institutions (NBFIs) are entities that provide certain bank-like and financial services but do not hold a banking license.
   - It does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property.



2. **Which of the following are the functions of RBI?**
   1. **Prescribing broad parameters of banking operations.**
   2. **Issuing currency and coins of rupee one or its denominations.**

3. **Performing the Merchant Banking functions for the central and state governments.**
4. **Acting as the Manager of Foreign Exchange**

Select the correct code.

A. 1 and 3 only

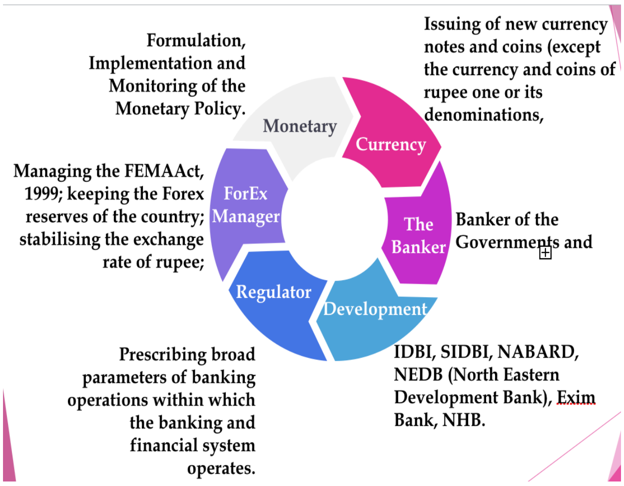
B. 2 and 4 only

C. 1, 3 and 4 only

D. 1, 2, 3 and 4

Answer: C

Explanation



3. **Which of the following banks are recognized by RBI as domestic systemically important banks (DSIB's), which is along the lines of 'too big to fail' concept?**
   1. **State Bank of India**
   2. **HDFC**
   3. **ICICI**
   4. **PNB**
   5. **Axis Bank**

Which of the above is/are correct?

A. 1, 2, 3 and 5 only

B. 1 and 2 only

C. 1, 2 and 3 only

D. 1, 3 and 5 only

Answer: C

Explanation

- Only three banks are considered too big to fail i.e. SBI, HDFC and ICICI.
- D-SIB means that the bank is too big to fail. According to the RBI, some banks become systemically important due to their size, cross-jurisdictional activities, complexity and lack of substitute and interconnection.
- Banks whose assets exceed 2% of GDP are considered part of this group.
- Should such a bank fail, there would be significant disruption to the essential services they provide to the banking system and the overall economy.
- The too-big-to-fail tag also indicates that in case of distress, the government is expected to support these banks. Due to this perception, these banks enjoy certain advantages in funding.

4. **Which of the following are the liabilities of a commercial bank?**
   1. **Time deposits**
   2. **Security holdings**
   3. **Demand deposits**
   4. **Advances from the centr**al bank

Select the correct code

A. 1, 2 and 3 only

B. 1, 3 and 4 only

C. 2 and 4 only

D. 1 and 3 only

Answer: D

Explanation

Liabilities of Banks

- Capital and Reserves:
  - ✓Together they constitute owned funds of banks.
  - ✓Capital represents paid-up capital, i.e., the amount of share capital actually contributed by owners (shareholders) banks.
  - ✓Reserves are retained earnings or undistributed profits of banks accumulated over their working lives.
  - ✓The law requires that such reserves are built up and that not all the earned profits are distributed among the shareholders.
- Deposits
  - ✓At the present level of financial development in India, banks are the premier financial institution.
  - ✓!Deposit mobilisation by them remains the most important form of mobilisation of savings of the public.
  - ✓Therefore, to the extent the promotion and mobilisation of savings is a necessary prerequisite for stepping up the rate of economic growth, mobilisation by banks in real terms must be given its due weight.

	(Rs. crores)
A. Liabilities	
1. Paid-up capital and Reserves[1]	3,87,000
2. Deposits:	3,10,000
(i) Time	77,000
(ii) Demand	7,600
3. Borrowings	32,400
4. Other liabilities	
Total Liabilities	4,27,000
B. Assets	
1. Cash in hand and with RBI	63,000
2. Money at call and short notice	3,000
3. Investments	1,49,000
4. Loans, advances, and bills discounted and purchased	2,12,000
Total assets	4,27,000

- Borrowings:
  - ✓Banks as a whole borrow from the RBI, the IDBI, the NABARD, and from the nonbank financial institutions (the LIC, the UTI, the GIC and its subsidiaries, and the ICICI) that are permitted to lend by the RBI in the inter-bank call money market.
  - ✓Individual banks borrow from each other as well through the call money market and otherwise.
- Other Liabilities:
  - ✓They are miscellaneous items of various descriptions such as bills payable, etc.
  - ✓Then there are participation certificates, a new form of issuing banks' liability.

5. **There are few types of monetary policy stances which keep coming into media from time to time. Consider the following with respect to the same.**

   1. **Calibrated tightening: injection of more funds into the financial system.**

2. **Contractionary stance: syphoning out of fund from the financial system.**
3. **Hawkish stance: interest rates can only move upward.**

Which of the above pairs is/are incorrect?

A. 1 and 2 only

B. 2 only

C. 1 and 3 only

D. 3 only

Answer: C

Explanation

- The MPC (has to meet 4 times minimum every year) has a total of 6 members nominated by RBI and the Ministry of Finance in equal numbers including the RBI Governor as its Chairman who avails the right of casting vote in case of a tie in decisions.
- The actual tone of the monetary policy stance of RBI is set by its first monetary policy of the year announced beginning every financial year—gaining its clues from the annual budget announcements.
- There are few types of monetary policy stances which keep coming into media from time to time:
- Neutral stance means interest rates may move either way— upward or downward.
- Calibrated tightening means interest rates can only move upward.
- Accommodative stance (also known as expansionary stance) means injection of more funds into the financial system. Falling 'headline inflation' inspires RBI for it and such a stance is aimed at expansion in lending, investment and growth.
- Contractionary stance means syphoning out of fund from the financial system. Such a stance is generally followed once more than optimum fund is believed to be available in the financial system. At times, it is also aimed at taming inflation in long-term.
- Hawkish stance means the contractionary stance aimed at checking inflation from rising (linked to the statutory goals of inflation targeting the 'headline inflation').