

QB365 Question Bank Software Study Materials

Reserve Bank of India Important 2,3 & 5 Marks Questions With Answers (Book Back and Creative)

11th Standard

Commerce

Total Marks : 75

2 Marks

10 x 2 = 20

- 1) What are the services included in Service Business?

Answer : Educational, medical, hospitality are the services included in service businesses.

- 2) Write the meaning of 'Bank'.

Answer : "Banking means the 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, pay order or otherwise".

- 3) Briefly explain about Central Bank.

Answer : "A central bank being generally recognized as a bank which constitutes the apex of the monetary and banking structure of its country and which performs as best as it can, in the national economic interest." - De Kock.

(or)

"It may be defined as an institution charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare." - Kent.

(or)

"A Central Bank is the bank in any country to which has been entrusted the duty of regulating the volume of currency and credit in that country." - Bank of International Settlement (BIS).

- 4) What do you mean by reverse repo rate?

Answer : Reverse repo rate is the rate at which the RBI borrows money from Commercial banks by giving back those Government securities.

- 5) Know the Central Banks of Some other Countries.

Answer : 1. The Central Bank of Russia is the Bank of Russia
2. The Central Bank of Sri Lanka is the Central Bank of Sri Lanka
3. The Central Bank of the USA is Federal Reserve (or) The Fed
4. The Central Bank of Pakistan is The State Bank of Pakistan

- 6) List the credit control methods of Reserve Bank of India.

Answer : Reserve Bank of India controls money supply and credit to maintain price stability in the country. Credit is controlled by two methods. They are: .

(a) Qualitative methods. Underselective or qualitative credit control, the following weapons are used:

(i) Fixation of margin

(ii) Regulation of consumer credit

(iii) Direct action

(iv) Rationing of credit and

(v) Moral suasion.

(b) Quantitative credit control. The quantity of credit is controlled by RBI through:

(i) Bank rate

(ii) Open market operation and

(iii) Variable reserve ratio.

- 7) Write a short note on Central Bank.

Answer : Every country has a Central Bank. It acts as the leader of the money market, supervising, controlling and regulating the activities of commercial banks and other financial institutions.

It is the apex bank. It is the bank of Note issue. It acts as the banker, agent and adviser to the Government. Such a bank is

It is the apex bank. It is the bank of note-issue. It acts as the banker, agent and advisor to the Government. Such a bank is called the Central Bank. The Reserve Bank of India (RBI) is the Central Bank of India.

8) What are the departments of Reserve Bank of India?

Answer : (a) Banking Department: The bank has seven offices of Banking Department

- (i) Public Accounts Department
 - (ii) the Public Debit Office
 - (iii) Deposit Accounts Department
 - (iv) Securities Department.
- (b) Issue Department:
- (i) General Department,
 - (ii) Cash Department.
- (c) Central Policy Department:
- (i) Credit Planning Cell
 - (ii) Personal Policy Department.
 - (iii) Administration Department.

9) Write short notes on bank rate policy of RBI

Answer : Bank rate refers to the rate at which the RBI rediscounts the bills given by the Scheduled banks.

10) List out Quantitative methods of Credit Control of RBI.

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

3 Marks

10 x 3 = 30

11) Explain the origin of RBI.

Answer : Origin of RBI:

1. The imperial bank of India carried out the note issue and other functions of the Central Bank.
2. In 1926 the Hilton-Young Commission or the Royal Commission on Indian Currency and Finance (J.M. Keynes and Sir Ernest Cable were its members) made recommendations to create a Central Bank.
3. As a result, the RBI Act 1934 was passed and RBI launched in its operations from April 1, 1935.
4. RBI was established with a share capital of Rs.5 crores divided into shares of Rs.100 each fully paid up.
5. The entire share capital was owned by the private shareholders. Its head office was in Calcutta and moved to Mumbai in 1937.
6. After independence, the Government of India passed Reserve Bank (Transfer to Public Ownership) Act, 1948 and took over RBI after paying appropriate compensation to the private shareholders.
7. From January 1, 1949, RBI started functioning as a government owned central bank of India.
8. It had three departments. The RBI was the central bank of Burma until 1947, and the central bank of Pakistan until June 1948.

12) Who are the persons involved in RBI administration?

Answer : The RBI is governed by a Central Board of Directors. The 21 member board is appointed by the Government of India.

It consists of :

- (i) One Governor and four Deputy Governors appointed for a period of four years.
- (ii) Ten directors from various fields.
- (iii) Two government officials
- (iv) Four directors - one each from local boards.

13) What are the functions of RBI? (any 3)

Answer : Being a central bank of India, RBI serves a critical role in regulating the financial transactions in the country. Some of the important functions of RBI are listed below:

1. Issue of Bank Notes
2. Banker to the Government
3. Custodian of the Cash Reserves of Commercial Banks
4. Custodian of country's forex reserves
5. Lender of last resort
6. Controller of credit

14) Mention the importance of Banking Services.

- Answer :**
1. Banking Service is the nerve centre of industry and Commerce in a country.
 2. It plays a vital role by providing the money required for their regular functioning and development.
 3. The word Bank normally refers to Commercial Banks.
 4. There are many types of banks rendering different types of services.
 5. Central Bank is the most important one among them.

15) Explain the qualitative credit control methods of RBI.

Answer : The Qualitative credit control methods influence the volume of money in selected or particular sectors of the economy. These measures are as follows:

(i) Rationing of credit:

Maximum limit is fixed for lending to certain sectors or specific purposes.

(ii) Marginal Requirement:

It refers to the percentage of the value of securities submitted before issue of loans.

(iii) Direct Action:

The RBI takes corrective actions on any bank or banks that does not follow its guidelines. It is called direct action.

(iv) Moral Suasion:

The RBI puts pressure on the banks towards liberal or restricted lending during certain periods.

16) RBI is said to be "Lender of the Last Resort" Why?

Answer : In times of emergency any bank in India can approach RBI for financial assistance RBI provides them credit. When other sources of getting credit are exhausted, all banks can obtain loan from RBI and hence it is called lender of last resort.

17) What are the reasons behind in demonetisation by Government of India?

Answer : Government of India on the recommendation of the RBI carried out demonetization on November 8, 2016 in order to :

- i. Drive out counterfeit currency in circulation.
- ii. To crack a whip against black money.
- iii. Formalization of cash dependent business and
- iv. Dismantling the financial strength of terrorism and naxalism.

18) Write a note on Demonetisation.

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19) State the leadership and supervisory functions of RBI.

- Answer :**
- (i) India's representative in World Financial Institutions
 - (ii) Regulator and supervisor of Indian Banking System
 - (iii) Monetary authority
 - (iv) Closely monitoring economic parameters
 - (v) Promptly responding to new challenges

20) Explain RBI's clearing house services.

Answer : Clearing House Services:

1. RBI acts as clearing house and maintains a clearing system for all commercial banks in India.
2. The aggregate amount of cheques presented by a bank on other banks represents the claim by that bank on other banks.
3. Similar claims are made by all the banks on every other bank in the clearing.
4. A net settlement is arrived at the clearing house and accordingly the debit or credit entry is made in their current accounts.
5. The cash reserves kept by the banks with RBI is utilised for this purpose. Clearing system saves time and eliminates paperwork and other difficult (otherwise tasks) tasks involved in inter-bank settlement.
6. Though the RBI maintains the clearing house system only 14 clearing houses are owned by the RBI, 840 are managed by SBI and 6 by Nationalised banks (total 860).

5 Marks

5 x 5 = 25

- 21) Classify the various functions of Reserve Bank of India. (any 5)

Answer : The functions of RBI can be grouped into under three heads.

- (i) Leadership and supervisory functions
- (ii) Traditional functions; and
- (iii) Promotional functions

Leadership and Supervisory Functions:

RBI being the banking institutional head of India has to be a part of global institutions. It has to transform the quality and size of banks in India to the level of banks in developed countries.

a) India's Representative in World Financial Institutions:

In order to maintain consistency and harmony with international banking standards the RBI is associated with Basel Committee on Banking Supervision (BCBS, Switzerland) since 1997. RBI represents Government of India in International Bank for Reconstruction and Development (IBRD i.e. World Bank) and International Monetary Fund (IMF) in which India is a member since December 27, 1945.

Traditional Functions:

a) Banker and Financial Advisor to the Government:

The RBI accepts money into the Central and State Governments' accounts and make payments on their behalf. It manages Government debt and is responsible for issue of new loans.

b) Monopoly of Note Issue:

The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note. It is the duty of the RBI to ensure that sufficient number of good quality currency notes is available to the public.

Promotional Functions :

The RBI performs a wide range of promotional functions to support national objectives.

a) Nurturing Banking Habits among the Public:

It protects the depositors' interest and aim at providing cost-effective banking services in order to include more people to avail banking services. It has also taken up the task of extending the banking system territorially and functionally to the unbanked areas.

b) Grievance Settlement Measures:

RBI has appointed 20 (up to 2017) Banking Ombudsman in 20 state capitals. Banking Ombudsman Scheme is a speedy and inexpensive forum for resolution of customer complaints relating to certain services rendered by banks in India.

- 22) Explain the Traditional functions of RBI.

Answer : (i) Banker and Financial advisor to the Government:

- (1) The RBI accepts money into the central and state governments accounts and make payments on their behalf.
- (2) It manages government debts and is responsible for issue of new loans.
- (3) It advises the government on the quantum, timing and terms of new loans.
- (4) It provides 'ways and means advances' to the Governments to tide over temporary financial needs.
- (5) It takes up the responsibility of investment of the surplus Government funds.
- (6) Inter Government and inter departmental account adjustments are carried out by the RBI.

(ii) Monopoly of Note Issue:

- (1) The RBI is the sole authority for the printing and issue of all currency notes in India except one rupee note.
- (2) It is the duty of the RBI to ensure that sufficient number of good quality currency notes is available to the public.
- (3) It exchanges currency notes and coins not fit for circulation. The One rupee note and all coins are issued by the Ministry of Finance.
- (4) Currency notes are printed at Nasik, Dewas, Salboni, Mysore and Hoshangabad. (Currency notes are never printed outside India).

(iii) Banker's Bank:

- (1) The relationship between RBI and other banks is just like the relationship of a commercial bank with its customers.
- (2) The RBI maintains the current accounts of all commercial banks in the country. All scheduled banks should deposit a percentage of cash reserve with RBI.
- (3) All banks can receive loans from RBI by rediscounting of bills and against approved securities.

(iv) Controller of Credit and Liquidity:

- (1) Controlling the credit money in circulation and the interest rate in the country is a major function of RBI.
- (2) For this purpose, the RBI uses quantitative and qualitative methods of credit control.
- (3) Ensuring the availability of sufficient cash and credit (liquidity) for business transactions and investment purposes in the economy is the responsibility of RBI.

(v) Lender of the Last resort:

- (1) In times of emergency any bank in India can approach RBI for financial assistance
- (2) RBI provides them credit. When other sources of getting credit are exhausted, all banks can obtain loan from RBI and hence it is called lender of last resort.

(vi) Clearing house service:

- (1) RBI acts as clearing house and maintains a clearing system for all commercial banks in India.
- (2) The aggregate amount of cheques presented by a bank on other banks represents the claim by that bank on other banks.
- (3) Similar claims are made by all the banks on every other bank in the clearing.
- (4) A net settlement is arrived at the clearing house and accordingly the debit or credit entry is made in their current accounts.

(vii) Custodian of foreign exchange reserves:

- (1) The RBI maintains a reserve of gold and foreign currencies.
- (2) When foreign exchange reserves are inadequate for meeting balance of payments problem, it borrows from the International Monetary Fund (IMF).
- (3) It also administers exchange control of the country.

(viii) Maintenance of Foreign Exchange Rate:

- (1) The RBI manages the exchange value of the rupee in order to facilitate India's foreign trade and payments.
- (2) It ensures that normal short-term fluctuations in trade do not affect the exchange rate.

(ix) Collection and Publication of Authentic Data:

- (1) It has also been entrusted with the task of collection and compilation of statistical information relating to banking and other financial sectors of the economy.
- (2) RBI issues monthly bulletin, annual reports and various committee reports contain treasures of authentic data.

23) What are the achievements of the RBI?

Answer : The achievements of RBI are:

- (i) RBI is one of the best central banks in the world. RBI took proactive measures during global economic slowdown in 2008-09 to save Indian economy,
- (ii) National Bank for Agriculture and Rural Development (NABARD) was once a subsidiary of RBI. It is the first of its kind in the entire world.
- (iii) The demonetisation in 2016-17 was a grand success because of the leadership role of the RBI.

24) What are the promotional functions of RBI?

Answer : Promotional Functions:

The RBI performs a wide range of promotional functions to support national objectives. They are discussed below:

(i) Nurturing Banking habits among the public:

- (1) It is the responsibility of RBI to maintain the public confidence in the Banking System.
- (2) It protects the depositors' interest and aim at providing cost-effective banking services in order to include more people to avail banking services.
- (3) It has also taken up the task of extending the banking system territorially and functionally to the unbanked areas.

(ii) Grievance settlement measures :

- (1) RBI has appointed 20 (upto 2017) Banking Ombudsman in 20 state capitals.
- (2) Banking Ombudsman scheme is a speedy and expensive forum for resolution of customer complaints relating to certain services rendered by banks in India.

(iii) Agricultural development:

- (1) Agricultural industry is specified as priority sector by the RBI. The loan of all scheduled bank should consists of a percentage of loans to priority sector.
- (2) It works in close association with NABARD to develop agriculture in India.

(iv) Promotion of small scale industries:

- (1) Micro small and medium enterprises are included in the priority sector.
- (2) All scheduled banks are required to open separate branches to specialise the financing of these industries.

(v) Facilitates Foreign Trade:

RBI has simplified the rules for credit to exporters, through which they can now get long term advance from banks.

(vi) Supports Cooperative Sector:

- (1) It helps co-operative banks by relaxing and providing indirect financing.
- (2) The rupee symbol was changed from Rs. to " Rs " by the Government of India on July 15, 2010.
- (3) This became necessary since other countries Indonesia, Mauritius, Nepal, Pakistan and the Seychelles also called their currencies rupee.
- (4) Among global currencies Indian rupee is given the code INR (Indian Rupee) by the International Organisation for Standardisation.

25) What are the Traditional functions of RBI?

Answer : (i) Banker and Financial advisor to the Government:

- (1) The RBI accepts money into the central and state governments' accounts and make payments on their behalf.
- (2) It manages government debts and is responsible for issue of new loans.
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- (1) Controlling the credit money in circulation and the interest rate in the country is a major function of RBI.
- (2) For this purpose, the RBI uses quantitative and qualitative methods of credit control.
- (3) Ensuring the availability of sufficient cash and credit (liquidity) for business transactions and investment purposes in the economy is the responsibility of RBI.

Quantitative Methods of Credit Control:

The methods which, influence the total volume of credit in Indian economy are called quantitative or general methods. An increase in the first three measures will reduce the volume of money in circulation in India and vice versa.

- i. Bank Rate Policy
- ii. Cash Reserve Ratio (CRR):
- iii. Statutory Liquidity Ratio (SLR)
- iv. Open Market Operations:

Qualitative Credit Control Measures:

These methods influence the volume of money in selected or particular sectors of the economy.

- i. Rationing of credit:
- ii. Marginal Requirement:
- iii. Direct Action
- iv. Moral Suasion

(v) Lender of the Last resort:

- (1) In times of emergency any bank in India can approach RBI for financial assistance
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- (2) When foreign exchange reserves are inadequate for meeting balance of payments problem, it borrows from the International Monetary Fund (IMF).
- (3) It also administers exchange control of the country and enforces the provisions of Foreign Exchange Management Act, 1999.
- (4) Development and maintenance of foreign exchange market in India is also the function of RBI.

(viii) Maintenance of Foreign Exchange Rate: