CAMBRIAN PUBLIC SCHOOL

KANKE ROAD, RANCHI

REVISION ASSIGNMENT-2

Subject: Economics (030) **Class: XII**

Case-Based Questions (3 Marks)

Case 1

Due to rising inflation, RBI increased the repo rate and CRR. Commercial banks reduced lending, resulting in lower money supply.

Questions

a) Name the policy adopted by RBI. (1)
b) Which instrument was used to reduce liquidity? (1)
c) How does increasing repo rate reduce inflation? (1)

Case 2

Commercial banks received deposits worth ₹5,000 crore. They kept only the required reserve and lent the remaining amount.

Questions:

a) Which function of commercial banks is shown?
b) Why are reserves maintained?
c) Name the process through which banks increase money supply.

4 Marks Questions

1) Explain the process of credit creation with the help of a numerical example.
2) Explain the functions of RBI as the Central Bank of India.
3) Explain the instruments of Monetary Policy used by RBI to control inflation.
4) Explain how RBI controls credit through quantitative and qualitative measures.
5) Distinguish between Commercial Bank and Central Bank. (Any four points)
6) Explain the functions of money with suitable examples.
7) Explain the components of money supply in India.
8) Discuss the role of commercial banks in economic development.
9) **Read the passage carefully.**
The Reserve Bank of India uses monetary policy to maintain price stability and promote economic growth. During inflation, it increases the repo rate and CRR to reduce liquidity. During recession, it lowers these rates and purchases government securities to increase money supply.
Answer the following:
a) Name the policy discussed above. (1)
b) Why does RBI increase repo rate during inflation? (1)
c) State one effect of reducing CRR during recession. (1)
d) Name one qualitative instrument of monetary policy. (1)

10) Suppose RBI increases CRR from 4% to 5%.
Explain:
a) Effect on commercial banks
b) Effect on loans
c) Effect on money supply
d) Effect on inflation

11) The government wants to increase investment during recession. Explain how RBI can help through money?

12) If banks stop creating credit, what would be the effect on:

- Money supply
- Investment
- Employment
- National Income

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