Standard: 12th Commerce   Subject: Economics

Q1. The ratio of total deposits that a commercial bank has to keep with Reserve Bank of India is called: **1 Mark**

A Statutory liquidity ratio.
B Deposit ratio.
C Cash reserve ratio.
D Legal reserve ratio.

Q2. Depreciation of fixed capital assets refers to: (choose the correct alternative) **1 Mark**

1. Normal wear and tear.
2. Foreseen obsolescence.
3. Normal wear and tear and foreseen obsolescence.
4. Unforeseen obsolescence.

Q3. Which of the following is not the function of the central bank?

A Banking facilities to government.
B Banking facilities to public.
C Lendings to government.
D Lendings to commercial bank.

Q4. Direct tax is called direct because it is collected directly from: (Choose the correct)

1. The producers on goods produced.
2. The sellers on goods sold.
3. The buyers of goods.
4. The income earners.

Q5. Demand for a good is termed inelastic through the expenditure approach when if.

1. Price of the good falls, expenditure on it rises.
2. Price of the good falls, expenditure on it falls.
3. Price of the good falls, expenditure on it remains unchanged.
4. Price of the good rises, expenditure on it falls.

Q6. To reduce credit availability in the economy, the Central Bank may ______.

A Buy securities in the open market.
B Sell securities in the open market.
C Reduce reserve ratio.
D Reduce repo rate.

Q7. Marginal revenue of a firm is constant throughout under:

1. Perfect competition.
2. Monopolistic competition.
3. Oligopoly.
4. All the above.

Q8. Credit creation by commercial banks is determined by: **1 Mark**

A Cash Reserve Ratio (CRR).
B Statutory Liquidity Ratio (SLR).
C Initial Deposits.
D All the above.

Q9. Suppose total revenue is rising at a constant rate as more and more units of a commodity are sold, marginal revenue would be: (choose the correct alternative) **1 Mark**

1. Greater than average revenue.
2. Equal to average revenue.
3. Less than average revenue.
4. Rising.

Q10. The central bank can increase availability of credit by: **1 Mark**

A Raising repo rate.
B Raising reverse repo rate.
C Buying government securities.
D Selling government securities.

Q11. A firm is able to sell any quantity of a good at a given price. The firm's marginal revenue will be: (Choose the correct alternative) **1 Mark**

1. Greater than Average Revenue.
2. Less than Average Revenue.
3. Equal to Average Revenue.
4. Zero.

Q12. Repo rate is the rate at which: **1 Mark**

A Commercial banks purchase government securities from the central bank.

B Commercial banks can take loans from the central bank.

C Commercial banks can keep their deposits with the central bank.

D Short-term loans are given by commercial banks.

Q13. Demand deposits include: **1 Mark**

A Saving account deposits and fixed deposits.

B Saving account deposits and current account deposits.

C Current account deposits and fixed deposits.

D All types of deposits.

Q14. Find the missing figures and choose the correct alternative:

Round	**Deposits**	**Loans (80%)**	**Reserve Ratio (20%)**
I	5000	4000	..(i)..
II	4000	..(ii)..	800
...	...	...	...
...	...	...	...
Total	..(iii)..	..(iv)..	5000

A 1000, 800, 20000, 25000

B 5000, 3200, 25000, 20000

C 1000, 3200, 25000, 20000

D 1000, 800, 20000, 25000

Q15. Primary deficit equals: (Choose the correct alternative)

1. Borrowings.
2. Interest payments.
3. Borrowings less interest payments.
4. Borrowings and interest payments both.

Q16. When average cost falls, marginal cost:

1. Falls.
2. Rises.
3. May fall or may rise.
4. Neither falls nor rises.

Q17. Aggregate demand can be increased by:

A Increasing bank rate.

B Selling government securities by Reserve Bank of India.

C Increasing cash reserve ratio.

D None of the above.

Q18. In order to control the money supply in the economy, the Central Bank may ________. **1 Mark**

A Buy securities in the open market.

B Sell securities in the open market.

C Reduce cash reserve ratio.

D Reduce repo rate.

Q19. Identify and match the correct sequence of alternatives of organisations given in Column I with their respective functions in Column II: **1 Mark**

S.No	**Column I**	**S.No**	**Column II**
a.	WTO	i.	provides short-term loans to solve the Balance of Payments problem.
b.	RBI	ii.	is a multilateral trade negotiating body.
c.	IMF	iii.	facilitates lending for reconstruction and development.
d.	IBRD	iv.	is the Central Bank of India.

Choose the correct alternative from the following:

1. a-(ii), b-(i), c-(iii), d-(iv)
2. a-(ii), b-(iv), c-(iii), d-(i)
3. a-(ii), b-(iii), c-(iv), d-(i)
4. a-(ii), b-(iv), c-(i), d-(iii)

Q20. Which of the following measures of price elasticity shows elastic supply? **1 Mark**

1. 0.
2. 0.5.
3. 1.0.
4. 1.5.

Q21. Is there any organization which supervises the credit activities in formal sector? **1 Mark**

A Central government **B** State goverment **C** SBI **D** RBI

Q22. Which of the following is a financial instrument used in international capital market? **1 Mark**

A Global Depository Receipts
B American Depository Receipts
C Foreign Currency Convertible Bonds
D All of the above

Q23. Money is most liquid of all assets because ________.

A It includes shares and equities.
B Money itself is medium of exchange.
C It does not have general acceptability.
D It has many functions.

Q24. The value of deposit multiplier is equal to:

A $\frac{1}{\text{CRR}}$
B $\frac{1}{\text{SLR}}$
C $\frac{1}{\text{LRR}}$
D None of the given.

Q25. In which of the following fund transfer mechanisms, can funds be moved from one bank to another and where the transaction is settled instantly without being bunched with any other transaction?

A RTGS **B** NEFT **C** TT **D** EFT

Q26. Which of the following instrument deals with the qualitative credit control?

A Open Market Operation. **B** Moral Suasion. **C** Bank Rate. **D** None.

Q27. Arrange the different forms of money in the order of their liquidity:

1. Cheque.
2. Cash.
3. Debit card.
4. Equity shares.
5. Bonds.

Codes:

A 2, 4, 3, 1, 5 **B** 2, 1, 3, 4, 5 **C** 2, 3, 1, 4, 5 **D** 2, 1, 4, 3, 5

Q28. ___________ remains unaffected by a cut in CRR. **1 Mark**

A Monetary liabilities of the central bank
B Liability of commercial banks
C Interest rates
D Aggregate demand

Q29. Which committee made a number of suggestions to overcome the defects of the indian banking system? **1 Mark**

A Dantwala Committee **B** Narasimham Committee **C** Khusro Committee **D** Kelkar Committee

Q30. _______________ refers to that portion of total deposits of a commercial bank which it has to keep with itself in the form of liquid assets. **1 Mark**

A CRR **B** SLR **C** Bank Rate. **D** Repo Rate.

Q31. The rate below which banks cannot generally lend is called the _____________. **1 Mark**

A Base rate **B** Floor rate **C** REPO rate **D** Call money rate

Q32. Central Bank of a country does not deal with ________. **1 Mark**

A State Government. B General public. C Central Government. D Commercial banks.

Q33. The main functions of money include ________. **1 Mark**

A Power indicator, Medium of exchange, Store value, Measurement of value
B Medium of exchange, Measurement of value, Store value, Standard of deferred payment
C Display of wealth, Source of financial power, Medium of exchange, Unit of measurement
D Source of wealth, Display of wealth, Store value, Standard of deferred payment

Q34. The effect of increase in CRR will be reduced or nullified if ___________. **1 Mark**

A Bank rate is reduced.
B Securities are sold in the open market.
C SLR is increased.
D People do not borrow from non banking institutions.

Q35. Bank creates credit: **1 Mark**

A On the basis of their securities.
B On the basis of their total assets.
C On the basis of their cash deposits.
D On the basis of their gross liabilities.

Q36. The rate of economic growth is _______ proportional to the rate of growth of capital formation.

A Inversely B Directly C Constant D None of the above

Q37. The rate of interest offered by the bank to deposit holders is called the:

A Bank rate. B Borrowing rate. C Lending rate. D Inflation rate.

Q38. If a bank is unable to refund the short term deposits as funds are locked in long term loans, it involves which of the following?

A Interest rate risk B Operational risk C Liquidity risk D Market risk

Q39. FCCB's are very similar to the _________ debentures issued in India.

A Secured B Unsecured C First D Convertible

Q40. Promissory is invariably _______.

A In writing. B Definite. C Unconditional. D All the above.

Q41. Who is the fiscal agent and adviser to government in monetary and financial matters in India?

A SBI. B IDBI. C ICICI. D RBI.

Q42. Everything mentioned below is required to make the endorsement complete, EXCEPT ________.

A The holder signs on the face or back of the instrument.
B The instrument is delivered to the endorsee.
C It is sighed and delivered with intention of vesting of the endorsee with the rights of the holder.
D It is sighed and delivered with the intention of vesting the endorsee with the duties of the holder.

Q43. "Capital adequacy norms" is laid down by _________.

A EXIM Bank B NABARD C RBI D RRBs

Q44. Which of the following is associated with asset reconstruction company? **1 Mark**

A DICGC B ECGC C NPA D SEBI

Q45. The money market is a market for __________ funds which deals in monetary assets whose period of maturity is upto one year. **1 Mark**

A Short-term B Long-term C Medium-term D Nano-term

Q46. What functions are performed by money? **1 Mark**

A Served as a medium of exchange
B Common measure of value
C Store of value
D All the above

Q47. M_1 and M_2 measures of money supply issued by RBI are known as: **1 Mark**

A Total money. B Narrow money. C Broad money. D High powered money.

Q48. **Read the case study given below and answer the questions that follow:** **4 Marks**

The Reserve Bank of India raised inflation forecasts on the back of higher oil and other raw materials while it maintained the growth forecast at 9.5% for FY22 despite anemic investment demand. Governor Shaktikanta Das said inflation measured by the consumer price index (CPI) might remain close to the upper tolerance band of 6% up to September expecting easing of pressure thereafter on kharif harvest arrivals. [RBI has fixed inflation rate target in between 2%-6 %.] The central bank projected CPI at 5.7% for FY22 compared to its earlier projection of 5.1%. "The supply-side drivers could be transitory while demand-pull pressures remain inert, given the slack in the economy. A pre-emptive monetary policy response at this stage may kill the nascent and hesitant recovery that is trying to secure a foothold in extremely difficult conditions," Das said. Crude oil prices are volatile with implications for imported cost pressures on inflation, RBI said. "The combination of elevated prices of industrial raw materials, high pump prices of petrol and diesel with their second-round effects, and logistics costs continue to impinge adversely on cost conditions for manufacturing and services, although weak demand conditions are tempering the pass-through to output prices and core inflation.

1. What is the revised CPI projection for FY22 as per the Reserve Bank of India?
2. What is the upper tolerance band of inflation as per the RBI's target?
3. Explain why the RBI has decided not to implement a pre-emptive monetary policy response at this stage.

OR

3. How do volatile crude oil prices affect inflation according to the RBI?

Q49. **Read the case study given below and answer the questions that follow:**

Central bank has several important functions. It issues the currency of the country. It controls money supply of the country through various methods, like bank rate, opens market operations and variations in reserve ratios. It acts as a banker to the government. It is the custodian of the foreign exchange reserves of the economy. It also acts as a bank to the bankingsystem, which is discussed in detail later.

1. What is one of the main roles of the central bank in managing the economy?
2. How does the central bank support the government financially?
3. Explain the role of open market operations in controlling the money supply by the central bank.

OR

3. Describe the function of the central bank as the custodian of foreign exchange reserves.

Q50. Read the passage given below and answer the following questions from (i) to (v).

In India, the currency is issued by RBI on the basis of minimum reserve system. For this, RBI maintains a minimum reserve of Rs. 200crore. This minimum reserve consists of gold and foreign securities. Out of this Rs. 200 crore, the value of gold must be equal to Rs.115crore. RBI issues currency notes in the country. However, one rupee note and all coins are issued by the Ministry of Finance (GoI). RBI issues them on behalf of government. On the basis of above imaginary information, answer the following questions:

1. India follows................ reserve system:
1. minimum
2. maximum
3. Both [a] and [b]
4. None of these
2. Who is responsible for issuing one rupee note?
1. State Government
2. Governor
3. Ministry of Finance
4. None of these
3. Minimum reserve consists of gold and........... :
1. foreign securities
2. silver
3. diamond
4. None of these
4. Who has the monopoly right of issuing currency notes in the country?
1. Governor
2. Central Government
3. State Government
4. RBI

Q51. **Read the case study given below and answer the questions that follow:** **4 Marks**

The Central Bank of India is an apex body in the banking and financial structure of a country which was established in 1935.The Central bank enjoys the sole monopoly of issuing currency. It acts as a banker, agent and advisor to the government. The Central bank has the same relation with the commercial banks as the later has with the general public.

1. When was the Central Bank of India established?
2. What role does the Central Bank of India play in relation to currency issuance?
3. Explain the relationship between the Central Bank of India and commercial banks.

OR

3. What are the key functions of the Central Bank of India as described in the case study?

Q52. Read the passage given below and answer the following questions from (i) to (v). **4 Marks**

The Reserve Bank of India unexpectedly cut its key deposit rate, for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the Corona Virus lockdown. This week. Prime Minister Narendra Modi extended until May 3 a lockdown of the population of 1.3 billion as India's tally of infections exceeded 10,000, despite the three-week shutdown ordered from March 24. The RBI cut its Reverse Repo Rate by 25 basis points (bps) to 3.75% with immediate effect. Governor Shaktikanta Das told a video conference. The rate had already been cut by 90 bps on March 27. "The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI", he added. "In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate Reverse Repo Rate." Source: Business Today, April 17, 2020. On the basis of above imaginary information, answer the following questions:

1. The Reserve Bank of India lowered Reverse Repo Rate to discourage banks from parking idle funds with:
1. RBI
2. Commercial Bank
3. Both [a] and [b]
4. None of these
2. RBI's measure of reduction in Reverse Repo Rate is done to enable commercial banks............. :
1. to use the surplus funds for investment
2. to grant loans for productive purposes
3. to widen economic and financial landspace
4. All of the above
3. Reverse Repo Rate is........... to correct excess demand:
1. decreased
2. increased
3. Both [a] and [b]
4. None of the above
4. When Reverse Repo Rate is reduced, it...... :
1. discourages the commercial banks to park their surplus funds with RBI
2. encourages the commercial banks to park their surplus funds with RBI
3. Both [a] and [b]
4. Neither [a] nor [b]

Q53. Suppose India's total money supply (M_3) stood at Rs. 17,50,000 crore as on August 15, 2020, recording a rise of 9.5% over the same time last year. Currency with the public stood at Rs. 25, 75, 000 crore, up 19.5% over the year. Demand deposits with banks were up 7% at Rs. 14,70,000 crore. Time deposits with the banks were up by 8% at Rs. 1,25,00,000 crore. The bank credit to commercial sector rose 4% on year to Rs. 1,05,00,000 crore. Money supply in the economy has increased over the months. The currency with the public has increased by more than 15% and so have bank deposits. This has led to M_3 growing by over 8% since June. Due to Covid-19 pandemic in India, people have started keeping money to safeguard themselves against salary cut or job lossess. However, money from abroad kept on coming in India. This leads to an increase in demand for the Rupee against Dollar. To maintain stability in foreign exchange rate. RBI sold Rupees and brought Dollars adding to an increase in M_3. On the basis of above imaginary information, answer the following questions:

1. M3 = M1+............. :
1. Net time deposits with commercial banksdone
2. Precautionary transactory
3. Inflow of foreign currency
4. None of the above
2. Money supply is a .... concept.
1. currency
2. stock

3. foreign
4. None of these
3. Due to the Covid-19 pandemic, people have increase their savings due to...................... motive.
1. uncertainty
2. demand
3. precautionary transactory
4. None of the above
4. Money supply has increased due to:
1. inflow of foreign currency
2. uncertainty caused by Covid-19 pandemic
3. Both [a] and [b]
4. None of the above

Q54. **Read the case study given below and answer the questions that follow:** **4 Marks**

The reserve bank of India unexpectedly cut its key deposit rate for the second time in three weeks, to discourage banks from parking idle funds with it and spur lending instead, to revive a flagging economy amid the corona virus lockdown. This week, Prime Minister NarendraModi extended until May 3 a lockdown of population of 1.3 billion as India's tally of infections exceeded 10000, despite the 3 week shutdown order from March 24. The RBI cut its reverse repo rate by 25 basis points (bps) to 3.75 percent with immediate effect. GovernerShaktikanta Das told a video conference. The rate had already been cut by 90bps on March 27. "The surplus liquidity in the banking system has risen significantly in the wake of government spending and the various liquidity enhancing measures undertaken by the RBI".He added. "In order to encourage banks to deploy these surplus funds in investments and loans in productive sectors of the economy, it has been decided to reduce the fixed-rate reverse repo rate".

1. What was the new reverse repo rate set by the RBI?
2. Why did the RBI cut the reverse repo rate?
3. Explain the impact of the RBI's reverse repo rate cut on the banking system during the COVID-19 lockdown.

OR

3. Describe the relationship between the surplus liquidity in the banking system and the RBI's decision to lower the reverse repo rate.

Q55. **Read the case study given below and answer the questions that follow:**

The power of commercial banks which enables them to expand their deposits through loans is called credit creation. Legal Reserve Ratio is the minimum reserve that a commercial bank must maintain in a liquid form as per the instructions of the Central banks. LRR has two components(i) Cash Reserve Ratio (CRR)-It is the fraction of net total demand and time deposits that commercial banks must keep as cash reserves with Central bank. (ii) Statutory liquidity ratio (SLR) – it is the fraction of net total demand and time deposits that commercial banks must keep themselves in the form of specified liquid assets. Assumptions of Credit creation-(i)There is a single banking system in the economy. (ii) All transactions are outed through the banks Commercial banks are called the factories of credit. They advance much more than what they collect from the people in the form of deposits. Through the process of credit creation, the commercial banks provide finance to all the sectors of economy.

1. What is the purpose of maintaining the Cash Reserve Ratio (CRR)?
2. Define the term 'credit creation' in the context of commercial banks.
3. Explain how the Legal Reserve Ratio (LRR) influences the credit creation process in commercial banks.

OR

3. Describe the role of Statutory Liquidity Ratio (SLR) in credit creation by commercial banks.

Q56. **Read the case study given below and answer the questions that follow:** **4 Marks**

The central bank of India (Reserve Bank of India) is the apex institution that controls the entire financial market. It's one of the major functions is to maintain the reserve of foreign exchange. Also, it intervenes in the foreign exchange market to stabilise the excessive fluctuations in the foreign exchange rate. In other words, it is the central bank's job to control a country's economy through monetary policy. If the economy is moving slowly or going backward, there are steps that central bank can take to boost the economy. These steps, whether they are asset purchases or printing more money, all involve injecting more cash into the economy. The simple supply and demand economic projection occur and currency will devalue. When the opposite occurs, and the economy is growing, the central bank will use various methods to keep that growth steady and in-line with other economic factors such as wages and prices. Whatever the central bank does or in fact don't do, will affect the currency of that country. Sometimes, it is within the central bank's interest to purposefully affect the value of a currency. For example, if the economy is heavily reliant on exports and their currency value becomes too high, importers of that country's commodities will seek cheaper supply; hence directly affecting the economy.

1. What is one of the major functions of the Reserve Bank of India concerning foreign exchange?
2. How does the RBI intervene when the economy is moving slowly?
3. Explain how the RBI's actions can affect the value of the currency in an economy that is heavily reliant on exports.

OR

3. Describe the impact of an increased money supply on currency value and the broader economy.

Q57. Read the passage given below and answer the following questions from (i) to (iv). **4 Marks**

In India, the Central Bank (RBI) has the monopoly right of note issue. RBI issues promissory notes in the country. Each promissory note is a legal tender and contains the words promise to pay the bearer the sum of Rs. ...., and is signed by the Governor of RBI. The face value of each promissory note is higher than its commodity value.

On the basis of above imaginary information, answer the following questions:

1. Who has the monopoly right of note issue?
1. Government of India
2. President of India
3. Prime Minister of India
4. Reserve Bank of India
2. When money value > commodity value it is called:
1. Full bodied money
2. Fiduciary money
3. Credit money
4. Metallic money
3. Promissory notes are:
1. limited legal tender
2. unlimited legal tender
3. Both [a] and [b]
4. None of these
4. Paper currency notes of denominations (Rs.) 2, 5, 10, 20, 100, 200, 500 and 2000 are signed by:
1. Prime Minister
2. Mahatma Gandhi
3. President
4. Governor of RBI

Q58. India's total Money Supply (M3) stood at Rs. 1,78,04,885 crore as on October 23rd 2020, recording a rise of 11.60% over the same time last year. Currency with the public stood at Rs. 26,19,612 up 21.2% over the year. Demand deposits with banks were up 10% at Rs. 16,25,734 crore. Time deposits with banks were also up 10% at Rs. 1,35,18,822 crore. The bank credit to commercial sector rose 5.2% on year to Rs. 1,09,99,604 crore.Money supply in the economy has increased over the months. We can look at money supply from the component side and the sources side. One of the ways of measuring money supply in M3, which is a sum of the currency with the public, the demand deposits with the banking system, which include current deposits and savings deposits, the time deposits with the banking system, such as fixed deposits, recurring deposits, and other deposits of RBI. The currency with the public has grown by more than 21% since June and so have bank deposits. This has led to M3 growing by over 12% since June. Heightened uncertainty in India caused by the Corona Virus pandemic has led to a surge in currency in circulation as people hoard cash or park money in accessible deposits to safeguard themselves against salary cut or job losses. Foreign money continuously keeps coming into India, leading to an increase in demand for the Rupee against the Dollar. To prevent the Rupee from appreciating, RBI sold Rupees and bought Dollars adding to the increase in M3 On the basis of above imaginary information, answer the following questions:

1. Money supply in the economy has increased over 5 months since June due to:
1. public holding cash for transaction and precautionary motive
2. inflow of foreign exchange
3. uncertainty caused by Corona Virus pandemic
4. All of the above
2. Sum of currency with public, demand deposits and time deposits with banks is .... measure of money supply:
1. M_3
2. M_1
3. M_2
4. M_4
3. What are the components of money supply?
1. Currency held by public
2. Demand deposits with the banks

3. Time deposits with the banks
4. All of the above

4. Money supply refers to the total......... of money circulation in the economy which can be directly used for transactions:
1. flow
2. stock
3. Both [a] and [b]
4. None of these

Q59. **Read the case study given below and answer the questions that follow:** **4 Marks**

Some countries have made an attempt to move towards an economy which use less of cash and more of digital transactions. A cashless society describes an economic state whereby financial transactions are not connected with money in the form of physical bank notes or coins but rather through the transfer of digital information (usually an electronic representation of money) between the transacting parties. In India government has been consistently investing in various reforms for greater financial inclusion. During the last few years' initiatives such as Jan Dhan accounts, Aadhar enabled payment systems, e – Wallets, National financial Switch (NFS) and others have strengthened the government resolve to go cashless. Today, financial inclusion is seen as a realistic dream because of mobile and smart phone penetration across the country.

1. What is a cashless society?
2. Name one initiative mentioned in the case that aims to promote a cashless economy in India.
3. Explain how the penetration of mobile phones and smartphones contributes to financial inclusion in India.

OR

3. Discuss the role of Aadhar-enabled payment systems in promoting a cashless economy in India.

Q60. **Read the case study given below and answer the questions that follow:**

Repo (repurchase) rate also known as the benchmark interest rate is the rate at which the RBI lends money to the commercial banks for a short-term (a maximum of 90 days). When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate. If the repo rate is increased, banks can't carry out their business at a profit whereas the very opposite happens when the repo rate is cut down. Generally, repo rates are cut down whenever the country needs to progress in banking and economy. If banks want to borrow money (for short term, usually overnight) from RBI then banks have to charge this interest rate. Banks have to pledge government securities as collateral. This kind of deal happens through a re-purchase agreement. If a bank wants to borrow, it has to provide government securities at least worth ₹ 1 billion (could be more because of margin requirement which is 5%–10% of loan amount) and agree to repurchase them at ₹ 1.07 billion (US ₹ 15 million) at the end of borrowing period. So the bank has paid ₹ 65 million (US ₹ 910,000) as interest. This is the reason it is called repo rate.

1. What happens to borrowing costs for banks when the repo rate increases?
2. Why must banks pledge government securities when borrowing from the RBI?
3. Explain how a change in the repo rate affects a bank's profitability.

OR

3. Calculate the interest paid by a bank if it borrows ₹ 1 billion from the RBI at a repo rate that requires repayment of ₹ 1.07 billion.