

**Competency Based Questions**

**(3 Chapters)**

**Subject: Economics Class: XII**

**Ch.2- Money and Banking**

**Read the following case study and answer the following questions on the basis of the same: 1x 6 = 6**  
In modern times, the sources of supply of money are government, the central bank of the country, and commercial banks. In India, it is the Ministry of Finance that issues Rs.1 notes and all the coins. Money is mainly supplied by the Central bank of the country. RBI issues currency on the basis of the minimum reserve system. Under this system, the reserve bank has to maintain a minimum reserve of Rs.200 crores in the forms of gold and foreign securities. Commercial banks create credit on the basis of demand deposits, and on the basis of their cash reserves. When the commercial banks provide credit to the people, they add to the supply of money.  
On the other hand, when they reduce the provision of credit, the supply of money is reduced. Expansion or contraction of the money supply by the commercial banks is governed by the monetary policy of the Reserve Bank of India.

1. When commercial banks create credit on the basis of deposit and reserves, it will \_\_\_\_\_\_\_\_. (Create money, reduce money)
2. The supply of currency in India is governed by \_\_\_\_\_\_\_\_. (Reserve bank of India/commercial bank)
3. RBI maintains gold and foreign securities at a minimum level. Under \_\_\_\_\_\_\_\_ system such level is maintained. (Cash reserve, minimum reserve)
4. All types of currency are not issued by a single authority. \_\_\_\_\_\_\_\_ issues all coins and Rs. 1 paper notes. (RBI, Government of India).
5. What will be the total deposit created by commercial banks , if reserve ratio is 10% and primary deposit is ₹ 1250?
6. Read the following statements - Assertion (A) and Reason (R)

**Assertion (A):** The money supply roughly includes both cash and deposits that can be used almost as easily as cash.

**Reason (R):** Supply of money includes that stock of money which is held by people, other than the suppliers of money themselves.

a. Both Assertion (A) and Reason (R) are true, and Reason (R) is the correct explanation of Assertion (A)

b. Both Assertion (A) and Reason (R) are true, and Reason (R) is not the correct explanation of Assertion (A)

c. Assertion (A) is true, but Reason (R) is false.

d. Assertion (A) is false, but Reason (R) is true.

**Answer Key:**

1. Create money
2. Reserve Bank of India
3. Minimum reserve
4. Government of India
5. ₹ 12500 crores
6. b

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**Chapter 3: Liberalisation, Privatisation and Globalisation: An appraisal (Economic Reforms 1991)**

**Answer questions 1-6 based on the following case study:**  
**Read the hypothetical text and answer the given questions.**

LPG policies are the only way out to accelerate the pace of growth and development. Indeed, perusal of LPG policies was to a great extent a matter of economic compulsion rather than a matter of choice for the politicians of the country. However, a compulsion should never mean an abject surrender. It is strongly recommended that LPG policies are pursued with guarded precautions.  
LPG has accelerated the growth process of the Indian economy, but it is lopsided. It is not an inclusive growth process. It does not include all the sectors of the economy. Instead, it is increasingly relying on the 'service sector' of the economy.   
The agricultural sector has suffered serious neglect and its growth rate has slipped to a miserably low level (2-3 percent per annum). This has led to a widening gulf between the rural and urban economies. Implying the spread of poverty.   
Owing to LPG policies, the Indian economy has definitely gained a 'growth momentum'. The process of growth has not only accelerated but has also become more diversified. There is a definite change in the welfare level of the people. Recognition of the Indian economy as an emerging economic power in the world is of crucial significance.

1. Government is in great financial crisis. So, it decides to borrow from the Reserve Bank of India to cope with its deficits. Such financing is called \_\_\_\_\_\_\_\_.
   1. Deficit financing
   2. Surplus financing
   3. Urban financing
   4. Rural financing
2. Taxes are not received properly by the Government from the public. So, it decides to make certain reforms in this regard. All such reforms are known as
   1. Fiscal reforms
   2. External reforms
   3. Financial reforms
   4. Industrial sector reforms
3. Monetary policy is the policy of
   1. Government of India
   2. Both
   3. None
   4. RBI
4. The most urgent problem which prompted the introduction of the New Economic Policy in 1991 was
   1. Poor performance of public sector
   2. Balance of payment crisis
   3. Foreign exchange crisis
   4. All of these.
5. Which of the following is not a merit of privatisation?
   1. Social welfare
   2. Better efficiency
   3. Lesser budgetary deficit
   4. Increase in investment
6. Read the following statements-Assertion (A) and Reason (R)  
   **Assertion (A):**Rising prices of food products towards the end of 2009 should serve as a wake-up call to the fact that LPG policies are almost neglecting the farming sector of the economy.  
   **Reason (R):**The agricultural sector has suffered serious neglect and its growth rate has slipped to a miserably low level  
   Select the correct alternative from the following:
   1. Both Assertion and Reason are correct
   2. Both Assertion and Reason are incorrect
   3. Assertion is correct and Reason is incorrect
   4. Assertion is incorrect and Reason is correct

**Answer Key:**

1. a
2. a
3. d
4. d
5. a
6. a

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**Chapter 5: Human Capital Formation**

**Answer the correct option 1x6 = 6**

1. Human capital is a \_\_\_\_\_\_\_\_ process.
   1. All of these
   2. economic
   3. physical
   4. social
2. AICTE stands for:
   1. All India Council of Training and Education
   2. All India Council of Training and Entertainment
   3. An Indian Council of Training and Education
   4. All India Council for Technical Education
3. Which of the following are indicators of HDI are
   1. Standard of living
   2. Longevity
   3. Educational attainment
   4. All of these
4. Which of the following is false regarding Human Capital?
   1. It is separable from its owner
   2. It increases the efficiency to produce tangible goods
   3. It can be built through policy formulation
   4. It creates both private and social benefits
5. **Assertion (A):** India is facing one of the most explosive problems of discontent and frustration, that of graduate unemployment.  
   **Reason (R):**Not enough efforts have been made to maintain the demand-supply balance of the ever-rising labour force in the country.

Select the correct alternative from the following:

* 1. Both Assertion and Reason are correct
  2. Both Assertion and Reason are incorrect
  3. Assertion is correct and Reason is incorrect
  4. Assertion is incorrect and Reason is correct

1. **Assertion (A):**Expenditure on education is the most effective way of enhancing and enlarging the productive workforce in the country.  
   **Reason (R):**Monetary benefits of education far exceed the cost of education.

Select the correct alternative from the following:

* 1. Both Assertion and Reason are correct
  2. Both Assertion and Reason are incorrect
  3. Assertion is correct and Reason is incorrect
  4. Assertion is incorrect and Reason is correct

**Answer Key:**

1. d
2. d
3. d
4. a
5. a
6. a

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