

Mid Semester Test: August-2016

Money, Banking and Public Finance

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: **Money, Banking and Public Finance**
Semester-III (Batch: 2015-20)

Mid Semester Test: August-2016

Date: 12th August, 2016

Duration: 2 hours

Max. Marks: 30

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.

Q.1 Explain **any four** of the following questions with reasons or examples.
(in approximately 50-60 words)

Marks
(4x3=
12)

- (a) (i) In the simple money multiplier model, if the required reserve ratio (**r**) is 20% and **Company X** deposit 1000 crore in the **Bank A**, then : How much of credit creation will be done by the banking system (banks increasing money supply)? (Note: explain entire process)
- (ii) Explain the statement "Barter System of exchange was better system of exchange in comparison to modern monetary system."
- (b) Explain Gresham law by using concept of full-bodied coin and token coin.
- (c) (i) Market Order versus Limit Order.
- (ii) Mutual Fund versus Exchange-Traded Fund (ETF).
- (d) Cash Transaction Approach versus Cash Balance Approach.
- (e) Why is margin money important? How is margin calculated?

Q.2 Write short note of **any three** of the following and draw diagram wherever necessary.
(in approximately 200– 225 words)

(3x6=
18)

- (a) Discuss the development of the modern monetary system based on Goldsmith story. What is the dilemma of principal versus principal plus interest? What is the rationale for the principal plus interest?
- (b) Discuss the history and evolution of the international currency regime from gold standard to the dollar standard. Whether current the dollar standard is debt or not backed by gold? Explain.
- (c) (i) Derive the theory of high power money and money multiplier.
- (ii) In Money Multiplier process: Currency deposit ratio (**c**) = 0.5, required deposit ratio (**r**) = 0.1 and government purchase 60 crore of government securities from commercial bank (High powered money), then : How much of credit creation will be done by the banking system (banks increasing money supply)? (Note: explain entire process)
- (d) Explain the statement: "Money market is not a single market but a collection of

be done by the banking system (banks increasing money supply)? (Note: explain entire process)

- (d) Explain the statement: "Money market is not a single market but a collection of markets for various instruments."

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