

Mid Semester Test: August 2017

Money Banking and Public Finance

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: **Money Banking and Public Finance**  
Semester-III (Batch: 2016-21)

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**Date: 24<sup>th</sup> August, 2017****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 Write any six of the following questions with reasons or examples.  
(in approximately 30-40 words)

(Each Question=2 Marks)

**Marks**  
(6x2  
=12)

1. Elucidate difference between monetary aggregates  $M_2$  and  $M_3$  as per 1998 definition of money supply.
2. What is Bitcoin mining?
3. The velocity of money is 5, the amount of money in circulation is 1200 crore, price 300, and real GDP is 20 crore. According to Fisher's theory of demand for money, if money supply decreases to 600 crore and the velocity of money increases to 10, other things remaining the same or constant (real GDP) then, what will impact on price level?
4. Explain Gresham law by using the concept of full-bodied coins and token coins.
5. With the help of the following information calculate Capital Adequacy Ratio (CAR). Assume Bank X has 5 crore in tier one capital and 3 crore in tier two capital. It also has five loans/assets and their assigned risk weight are as follows:

Bank X (Balance Sheet)	Exposure	Risk Weight
Government Treasury held as asset	60 crore	0%
Loans to Corporates	40 crore	20%
Loans to Small Businesses	80 crore	50%
Loans to Prime lenders	200 crore	10%
Guarantees and other non-balance sheet exposures	12 crore	100%

6. Explain the statement, "The Universal Banking System has increased economic

6. Explain the statement, "The Universal Banking System has increased economic efficiency in the overall financial system."
7. Explain the statement "Barter System of exchange was a better system of exchange in comparison to the modern monetary system."

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Q.2 Write a short note of any three of the following and draw diagram wherever necessary. (3x6  
(in approximately 225– 250 words) (Each Question= 6 Marks) =18)

1. (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 a commercial bank (High powered money), then: How much of credit creation will be done by banks (bank increasing the money supply)? (Note: explain entire process)
2. Explain the statement: "Money market is not a single market but a collection of markets for various instruments."
3. Describe the different types of Assets. Discuss in detail the recovery process of NPAs through the informal regulatory framework and the formal regulatory framework.
4. (i) Discuss the history and evolution of the international currency regime from gold standard to the dollar standard. (Use the concept of full reserve system and minimum reserve system)  
(ii) Discuss the development of the modern monetary system based on Goldsmith story. What is the dilemma of principal versus principal plus interest?

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