

**GUJARAT NATIONAL LAW UNIVERSITY  
GANDHINAGAR**

Course: Money Banking and Public Finance  
Semester-III (Batch: 2014-19)

Mid Semester Test: August-2015

Date: 25<sup>th</sup> August, 2015

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 five** of the following questions with reasons or examples.  
(in approximately 30-40 words)

**Marks**  
(5x2=  
10)

1. As per the following table, if C.R.R increases from 15% to 20% and S.L.R increases from 25% to 30% then what will be the loan-able fund?

	Direct credit /Investment Programme	Percentage
1	C.R.R	15
2	S.L.R	25
3	P.S.L	16
4	D.R.I	1
	Total	57

2. (i) In the simple money multiplier model, if the required reserve ratio (r) is 10 % and government purchases 500 crore of government securities from commercial banks (High powered money), then: How much of credit creation will done by banks (bank increasing money supply)? (Note : explain complete procedure of how the bank creates money supply)

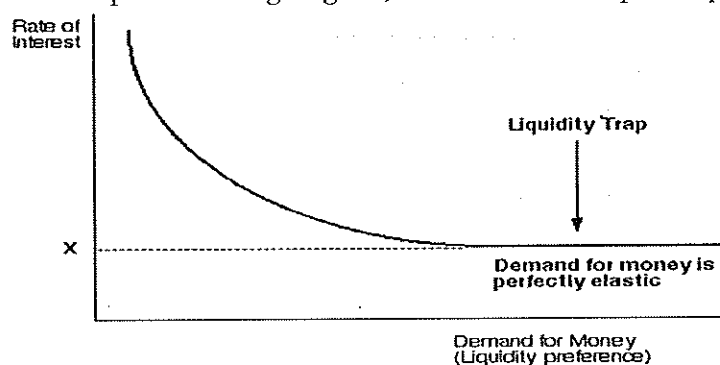
(ii) The velocity of money is 5, the amount of money in circulation is 600 crore, price 150, and real GDP is 20 crore. According to Fisher's theory of demand for money, if money supply decreases to 300 crore and the velocity of money increases to 10, other things remaining the same or constant (real GDP) then, what will be impact on price level?

3. With the help of following information calculate Capital Adequacy Ratio (CAR).

Assume Bank X has 2 crore in tier one capital and 1 crore in tier two capital. It also has four loans/asset and their assigned riskiness are as follows:

	Exposure	Risk Weight
Government Treasury held as asset	10 crore	0%
Loans to Corporates	20 crore	10%
Loans to Small Businesses	40 crore	50%
Guarantees and other non-balance sheet exposures	8 crore	100%

4. With the help of following diagram, describe the concept of liquidity trap.



5. Explain Gresham law with perspective of full-bodied currency and token currency.
6. According to Narasimham committee report I: "phasing out of direct credit programme". Why direct credit programme is not phased out till today? Explain.

Q.2 Write short note of **any four** of the following and draw diagram wherever necessary. (in approximately 275 – 300 words)

(4x5=20)

- Describe the different types of Assets? How the NPAs are regulated in India? Do you believe Securitization Act 2002 is an efficient regulation? Why?
- Discuss the importance of Universal Banking versus traditional banking.
  - As per the economist view, the Universal Banking system increased economic efficiency, but it create a cost of "Too big to fail". Explain
- Discuss the theory of Demand for Money :
  - Cash Balance Approach
  - Milton Friedman's Theory
- Discuss the history and evolution of the international currency regime from gold standard to the dollar standard. Why currently the dollar standard is Debt or not backed by gold? (Use the concept of full reserve system and minimum reserve system)
- 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?
- Derive the theory of high power money and money multiplier.
  - In Money Multiplier process: Currency deposit ratio ( $c$ ) = 0.5, required deposit ratio ( $r$ ) = 0.1 and government purchase 120 crore of government securities from commercial bank (High powered money), then: How much of credit creation will done by banks (bank increasing money supply)? (Note : explain entire procedure of how the bank creates money supply)

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