# B.K. BIRLA CENTRE FOR EDUCATION

SARALA BIRLA GROUP OF SCHOOLS
A CBSE DAY-CUM-BOYS' RESIDENTIAL SCHOOL

**PERIODIC TEST – I (2026-27)**
**ECONOMICS**

**Class: XII** **Time: 1hrs**
**Date:11.06.26** **SET - I** **Max. Marks: 25**

ANSWER KEY

1. Answer: (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A). 1)

2. c) Banker to the Government 1)

3. Answer: c. Statement I is true, but Statement II is false. 1)

4. Answer: (D) (iii) only 1)

5. Answer: (a) (i) and (iii) 1)

6. Rationale for increasing Repo Rate: 2)

- Answer: The primary reason for the MPC to increase the Repo Rate is to control inflation.
- Reasoning: Increasing the Repo Rate makes borrowing from the RBI more expensive for commercial banks. To maintain their margins, these banks raise their own lending rates. This discourages consumers and businesses from taking loans, which reduces overall spending and demand in the economy, ultimately helping to bring down rising prices.

7. Money as a measure of standard of deferred payments: 2)

- Answer: This function means that money acts as a yardstick for payments to be made in the future.
- Reasoning: Because money is durable and its value is relatively stable, it allows people to enter into contracts for loans, salaries, and future deliveries. Without money, it would be difficult to agree on the future value of commodity-based payments (like grain), which might perish or change in quality.

8. Is a credit card a form of money? 2)

- Answer: No, a credit card is not a form of money.
- Reasoning: Money is a medium of exchange that settles a transaction immediately (like cash or a bank balance). A credit card, however, is a tool for deferred payment. When you use it, you are essentially taking a temporary loan from the bank, which you must eventually pay back using actual money from your account.

9. Credit creation and Reserve Deposit Ratio: 2)

- Answer: Credit creation is inversely related to the Reserve Ratio (LRR).

- Reasoning: The formula for credit creation is 1/*LRR*. If the RBI increases the reserve ratio, commercial banks are forced to keep a larger portion of their deposits as reserves and have less money left to lend out. Thus, a higher reserve ratio leads to lower credit creation.

10. Open Market Operations (OMO) and Money Supply: 3)

- Answer: OMO is the buying and selling of government securities by the RBI to regulate the volume of money in the economy.
- Reasoning:
  - To reduce money supply: The RBI sells securities. This takes cash out of the hands of the public and commercial banks, reducing the banks' ability to create credit.
  - To increase money supply: The RBI buys securities, injecting fresh liquidity into the system, which increases the lending capacity of banks.

11. 'Banker's Bank and Supervisor' function: 3)

- Answer: This function highlights the RBI's role as the head of the banking structure.
- Reasoning:
  - Banker's Bank: The RBI holds the cash reserves (CRR) of commercial banks, provides them with short-term loans in times of need (Lender of Last Resort), and acts as a clearinghouse for inter-bank transactions.
  - Supervisor: The RBI regulates the banking sector by issuing licenses, inspecting books of accounts, and ensuring banks follow "prudential norms" to protect the interests of depositors and maintain financial stability.

12. (A) Inflationary Situation and Repo Rate: 3)

- (i) Identified Situation: Likely Inflation or Excess Demand
- (ii) Correction: To correct inflation, the RBI increases the Repo Rate. This makes borrowing from the central bank expensive for commercial banks. Banks, in turn, increase their lending rates for the public. This reduces the demand for credit, lowers aggregate demand, and helps stabilize prices.

12. (B) Qualitative Tools to control money supply: 3)

- 1. Margin Requirements: This is the difference between the market value of a security offered for a loan and the actual loan amount granted. By increasing the margin, the RBI makes it harder for people to get large loans, thereby restricting credit.
- 2. Moral Suasion: This involves the RBI using persuasion, pressure, or "advice" to convince commercial banks to follow its policy directives (e.g., asking banks to be strict with lending during inflationary periods).

*********************************ALL THE BEST*****************************************