B.K. BIRLA CENTRE FOR EDUCATION

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

NABET

INDIAN PUBLIC SCHOOLS' CONFERENCE

PERIODIC TEST – I (2026-27)

ECONOMICS

Class: XII	**ANSWER KEY**	**Time: 1hrs**
Date: 11 .06.26	**SET – II**	**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)**

- **Reasoning:** Money makes everything comparable. When we have a common unit (like Rupees), we can easily compare the value of a house to a car. This clarity makes people more willing to buy and sell, which expands the market.

2. Answer: (d) Standard of deferred payments **1)**

- **Reasoning:** Whenever a transaction involves a loan or a promise to pay in the future (like buying a house with borrowed funds), money is acting as a standard for those "deferred" or future payments.

3. Answer: c) Banker to the Government **1)**

- **Reasoning:** The RBI acts as the official banker for the government. Just like we go to a commercial bank, the government goes to the RBI to manage its accounts and borrow money to cover its budget deficits.

4. Answer: (B) 40,000 **1)**

- **Reasoning :** money multiplier formula:
- Total Deposits=Initial Deposit × Reserve Ratio1. So, 4,000×0.101=4,000×10=40,000.

5. Answer: (a) sells, decrease **1)**

- **Reasoning :** To reduce the "stock of money" (money supply), the RBI sells government securities. This takes cash out of the banking system and into the RBI's hands, leaving less money available for the public to spend.

6. Effect of decreasing CRR on Money Supply: **2)**

- **Answer:** A decrease in CRR **increases** the money supply.
- **Reasoning :** When the RBI lowers the CRR, commercial banks are required to keep less cash in reserve with the RBI. This "frees up" more cash for the banks, which they can then use to give more loans to customers, thereby injecting more liquidity into the economy.

7. Money as a Medium of Exchange: **2)**

- **Answer:** This function means money is a middleman used to facilitate the sale and purchase of goods.
- **Reasoning :** It solves the "double coincidence of wants" problem from the barter system. I don't have to find someone who specifically wants my old books and has the shoes I need; I can just sell my books for money and use that money to buy shoes from anyone.

8. Are digital wallet balances (G-Pay/Paytm) money? 2)

- **Answer:** Yes, they are considered a form of money.
- **Reasoning :** These balances represent actual "demand deposits" or electronic cash held in an account. Since they are widely accepted for instant payments and can be converted to cash at any time, they perform the primary functions of money.

9. Definition and Components of M1: 2)

- **Money Supply:** The total stock of money held by the public at a specific point in time.
- **Components of M1:**
    1. **Currency and Coins** held by the public.
    2. **Demand Deposits** with commercial banks (like savings and current accounts).
    3. **'Other' Deposits** with the RBI.

10. RBI as ‘Banker to the Government’ (Two Roles): 3)

- **Role 1: Managing Government Accounts:** The RBI maintains the cash balances of both Central and State governments and handles their receipts and payments.
- **Role 2: Managing Public Debt:** When the government needs to borrow, the RBI manages the issuance of government bonds and securities to the public.

11. Qualitative Tools to Control Inflation: 3)

- **Tool 1: Margin Requirements:** The RBI can increase the "margin" (the gap between a property's value and the loan amount). This discourages borrowing for speculative purposes.
- **Tool 2: Moral Suasion:** The RBI uses its authority to "persuade" or pressure commercial banks to be more selective in their lending, specifically asking them to restrict credit to sectors causing inflation.

12. (A) Relationship between Credit Creation and Reserve Ratio: 3)

- **Answer:** They are **inversely related**.
- **Hypothetical Example:** If the Reserve Ratio is 10%, the multiplier is 10 $(1/0.1)$, meaning ₹1,000 initial deposit creates ₹10,000. If the ratio increases to 20%, the multiplier drops to 5 $(1/0.2)$, and that same ₹1,000 only creates ₹5,000. This proves that a higher reserve ratio reduces the banking system's ability to create credit.

12. (B) Measures to control the Macroeconomic Issue (Inflation): 3)

- **Identified Issue:** Inflation
- **Measure 1: Increase Repo Rate:** Making it more expensive for banks to borrow from the RBI, which leads to higher interest rates for the public and lower spending.
- **Measure 2: Open Market Operations (Selling Securities):** As explained in Q5, selling securities reduces the cash available in the banking system, helping to cool down the economy

***ALL THE BEST**