

Enrollment No. :

Centre Code :

Invigilator Sign.

Date :

Total number of printed pages = 8

2024

IDC (MOOCs)

Paper : MOOCIDC1013

( Economics of Banking and Financial Markets )

Full Marks : 50

Pass Marks : 20

Time : 2 hours

(Question carries 1 mark each)

Please tick ( ✓ ) the correct answer

*Use of correction fluid is prohibited \*\* Multiple ticks will be treated as incorrect.*

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1. Which of the following is the primary function of a commercial bank?  
A) Accepting deposits  
B) Printing currency  
C) Formulating monetary policy  
D) Regulating the stock market
  2. What does the term 'central bank' refer to?  
A) A commercial bank  
B) The government's bank  
C) A bank responsible for monetary policy  
D) A cooperative bank
  3. Which of the following best describes 'monetary policy'?  
A) Government expenditure decisions  
B) Actions taken by a central bank to control inflation  
C) The policy regarding fiscal deficits  
D) Laws regulating stock market trading
  4. Which instrument is commonly used by central banks to control money supply?  
A) Taxation  
B) Open market operations  
C) Government borrowing  
D) Subsidies
  5. What is 'liquidity' in the context of banking?  
A) The ability to pay off debt  
B) The ease with which assets can be converted to cash  
C) The capital reserves of a bank  
D) The interest rate charged by a bank
  6. A rise in the discount rate by the central bank typically leads to:  
A) Increased lending by commercial banks  
B) Decreased lending by commercial banks  
C) A reduction in inflation  
D) Lower interest rates

7. **Which of the following is NOT a function of financial markets?**
- A) Facilitating savings and investment
  - B) Providing liquidity to securities
  - C) Ensuring stable exchange rates
  - D) Determining interest rates
8. **What is the role of a 'banker's bank'?**
- A) To provide loans to businesses
  - B) To act as a lender of last resort to commercial banks
  - C) To issue government securities
  - D) To provide interest-free loans to the government
9. **The term 'repo rate' refers to:**
- A) The rate at which banks lend to their customers
  - B) The rate at which the central bank lends to commercial banks
  - C) The rate at which foreign banks lend to domestic banks
  - D) The interest rate on government bonds
10. **What does 'capital adequacy ratio' ensure for banks?**
- A) That banks hold enough capital to cover potential losses
  - B) That banks can issue unlimited loans
  - C) That banks have sufficient reserves in the form of cash
  - D) That banks can offer high returns to investors
11. **What is 'inflation targeting'?**
- A) A policy aimed at controlling government spending
  - B) A policy where central banks set a specific inflation rate target
  - C) A practice of targeting the interest rate
  - D) A method to control unemployment rates
12. **Which of the following best defines a 'bond'?**
- A) A loan agreement between a government and a private entity
  - B) A debt security issued by corporations or governments
  - C) A contract to buy stocks at a future date
  - D) A form of bank deposit



21. **Which of the following is true about 'foreign exchange markets'?**
- A) They are used to exchange national currencies
  - B) They are regulated by the government of each country
  - C) They only operate during specific hours each day
  - D) They are used primarily to trade stocks and bonds
22. **Which of the following best describes 'interest rate risk'?**
- A) Risk associated with changes in the general level of interest rates
  - B) Risk that a bank may not be able to pay interest on its loans
  - C) Risk that the bank's capital will be insufficient to cover losses
  - D) Risk that customers may default on loans
23. **Which of the following is an example of a primary market transaction?**
- A) Buying stocks from another investor
  - B) A company issuing new shares to raise capital
  - C) Selling government bonds in the open market
  - D) Trading bonds on the stock exchange
24. **The 'money supply' in an economy is primarily controlled by:**
- A) Commercial banks
  - B) Central banks
  - C) Stock markets
  - D) Government spending
25. **Which of the following best defines 'moral hazard' in banking?**
- A) The risk of loss due to market fluctuations
  - B) The risk that borrowers will default on their loans
  - C) The tendency for banks to take excessive risks because they expect to be bailed out
  - D) The risk of bankruptcy for a financial institution
26. **The 'term structure of interest rates' refers to:**
- A) The relationship between interest rates and the term of loans
  - B) The tax rates imposed on interest income
  - C) The maturity period of bonds
  - D) The risk level associated with different interest rates –

**27. What is 'bank run'?**

- A) When banks raise their lending rates
- B) A situation where many customers withdraw their deposits simultaneously due to fear of bank insolvency
- C) When a bank sells off its non-performing assets
- D) A situation where banks lend more to borrowers than they can repay

**28. What is the 'repo market'?**

- A) A market where governments issue bonds
- B) A short-term borrowing and lending market using securities as collateral
- C) A market where corporate bonds are traded
- D) A market where stock options are bought and sold

**29. What is the purpose of 'capital markets'?**

- A) To provide short-term liquidity to financial institutions
- B) To facilitate the trading of stocks, bonds, and other securities
- C) To allow banks to lend to customers
- D) To control the money supply in the economy

**30. Which of the following is an example of a secondary market transaction?**

- A) A company issuing new shares to the public
- B) A bondholder selling government bonds to another investor
- C) A commercial bank offering a loan to a customer
- D) A government auction of treasury bills

**31. Which of the following financial instruments is most likely to have the highest risk?**

- A) Government bonds
- B) Treasury bills
- C) Corporate bonds with a high credit rating
- D) Junk bonds (high-yield bonds)

**32. Which of the following is a characteristic of a 'bear market'?**

- A) Rising stock prices
- B) Falling stock prices
- C) Stability in stock prices
- D) Increasing demand for bonds

- 33. What does 'duration' measure in the context of bonds?**
- A) The total interest paid over the life of the bond
  - B) The time to maturity of a bond
  - C) The sensitivity of a bond's price to changes in interest rates
  - D) The risk of default on a bond
- 34. What is the main purpose of the Securities and Exchange Commission (SEC)?**
- A) To regulate stock exchanges and protect investors
  - B) To set interest rates in the economy
  - C) To monitor fiscal policies of the government
  - D) To issue government bonds
- 35. Which of the following is NOT a tool of monetary policy?**
- A) Open market operations
  - B) Discount rate
  - C) Bank capital requirements
  - D) Government spending
- 36. Which type of financial market is concerned with the issuance of new securities?**
- A) Money market
  - B) Primary market
  - C) Secondary market
  - D) Bond market
- 37. The concept of 'liquidity preference' was introduced by:**
- A) John Maynard Keynes
  - B) Milton Friedman
  - C) Adam Smith
  - D) Friedrich Hayek
- 38. Which of the following is a feature of 'bank credit'?**
- A) It is the money created by central banks
  - B) It represents loans and advances made by banks to borrowers
  - C) It refers to the monetary base in an economy
  - D) It is the same as government bonds
- 39. Which of the following statements is true about the role of central banks in the financial system?**
- A) They regulate interest rates set by commercial banks
  - B) They provide loans to consumers
  - C) They supervise the insurance industry
  - D) They act as lenders of last resort during financial crises

**40. Which of the following is an example of 'systematic risk'?**

- A) Risk associated with a specific company's performance
- B) Risk associated with changes in government policies
- C) Risk arising from a market-wide event such as a recession
- D) Risk associated with interest rate changes

**41. The 'yield curve' is used to:**

- A) Show the relationship between bond prices and interest rates
- B) Predict the future performance of the stock market
- C) Determine the risk of various financial markets
- D) Compare the risk-free rate with corporate bond yields

**42. A 'liquidity crisis' typically occurs when:**

- A) Central banks raise interest rates
- B) There is an unexpected withdrawal of funds from banks
- C) Governments reduce their expenditure
- D) Stock markets crash

**43. Which of the following is the primary source of funds for investment banks?**

- A) Retail deposits
- B) Government bonds
- C) Stock market issuances
- D) Investment funds

**44. A 'bearish market' generally refers to:**

- A) A market where asset prices are expected to increase
- B) A market where asset prices are falling
- C) A market with high liquidity
- D) A market where inflation is stable

**45. Which of the following is a feature of a 'closed economy'?**

- A) No international trade or investment
- B) Free flow of capital and goods across borders
- C) High export levels
- D) Extensive foreign borrowing

- 46. In a 'fixed exchange rate system', currency value is:**
- A) Determined by market forces
  - B) Pegged to another currency or a basket of currencies
  - C) Set by central banks only in times of crisis
  - D) Not determined by any central authority
- 47. The term 'capital market' typically refers to:**
- A) Markets for short-term debt
  - B) Markets for long-term debt and equity
  - C) The central bank's monetary operations
  - D) Banks that lend to businesses
- 48. Which of the following is an example of a derivative instrument?**
- A) Treasury bond
  - B) Stock
  - C) Futures contract
  - D) Certificate of deposit
- 49. Which of the following is a key characteristic of 'high-frequency trading'?**
- A) It involves human traders making long-term investment decisions
  - B) It uses algorithms to conduct a large number of trades in fractions of a second
  - C) It focuses on government bond markets
  - D) It focuses on individual investors' transactions
- 50. 'Crowding out' occurs when:**
- A) Private investment is reduced due to higher government borrowing
  - B) Central banks increase money supply in the economy
  - C) Government borrowing leads to higher interest rates
  - D) Government expenditures boost private investment
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