

### REVISION OF KEY POINTS

- **Barter Exchange** refers to exchange of goods for goods.
- **Limitations of Barter Exchange:** (i) Lack of double coincidence of wants; (ii) Lack of common measure of value; (iii) Lack of standard of deferred payments; (iv) Lack of store of value.
- **Money** is anything which is generally accepted as a medium of exchange, measure of value, store of value and standard of deferred payments.
- **Money Supply** refers to the total volume of money held by public at a particular point of time in an economy.
- **Measures of Money Supply:**
  - (a)  $M_1$  = Currency and coins with Public + Demand Deposits of Commercial Banks + Other Deposits with RBI
  - (b)  $M_2 = M_1$  + Savings deposits with Post Office Saving Bank
  - (c)  $M_3 = M_1$  + Net time deposits with banks
  - (d)  $M_4 = M_3$  + Total Deposits with Post Office Saving Bank (*Excluding National Saving Certificate*)

## REVISION EXERCISE

### Multiple Choice Questions (MCQs)

1. What items are not included in  $M_1$  measure of supply?
  - (a) Currency and coins with public
  - (b) Inter-bank deposits
  - (c) Other deposits with RBI
  - (d) Net demand deposits with banks
2. High powered money consists of:
  - (a) Currency and coins held by the public
  - (b) Currency, cash reserves with banks and demand deposits
  - (c) Currency held by public and cash reserves with banks
  - (d) Currency and demand deposits
3. Money supply refers to:
  - (a) Total volume of money held by public at a particular point of time
  - (b) Total volume of money held by public over a period of time
  - (c) Total volume of money held by the government
  - (d) Both (a) and (b)
4. Money supply is a \_\_\_\_\_ concept.
  - (a) Stock
  - (b) Flow
  - (c) Both (a) and (b)
  - (d) Neither (a) nor (b)

5. Which one of these is a limitation of the barter exchange?

- (a) Lack of double coincidence of wants
- (b) Lack of store of value
- (c) Lack of common measure of value
- (d) All of these

6. Read the following dialogue between two people:

{CBSE, Sample Paper 2015}

Sita : I want 1 kg of potatoes

Rani : What will you give in exchange?

Sita : I can give you 2 litres of milk in return for the potatoes.

Rani : I don't need milk. I want a pair of shoe

Which of the following problem is being faced by Sita and Rani in their exchange process?

- (a) Lack of double coincidence of wants
- (b) Absence of common units of value
- (c) Lack of store of value
- (d) Lack of standard of deferred payment

7. Who regulates money supply?

{CBSE, All India Comptt. 2015}

- (a) Government of India
- (b) Reserve Bank of India
- (c) Commercial Banks
- (d) Planning Commission

8. Which of the following is not a problem of barter system of exchange? {CBSE, Delhi Comptt. 2016}

- (a) Store of Value
- (b) Double Coincidence of Wants
- (c) Unit of Account
- (d) Unemployment

9. Money supply includes\_\_\_\_\_.

{CBSE, All India Comptt. 2016}

- (a) All Deposits in Banks
- (b) Only Demand Deposits in Banks
- (c) Only Time Deposits in Banks
- (d) Currency with the Banks

10. Supply of money refers to quantity of money:

{CBSE, Sample Paper 2017}

- (a) As on 31<sup>st</sup> March
- (b) During any specified period of time
- (c) As on any point of time
- (d) During a fiscal year

Ans. 1. (b); 2. (c); 3. (a); 4. (a); 5. (d); 6. (a); 7. (b); 8. (d); 9. (b); 10. (c)

### Very Short Answer Type Questions (1 Mark each)

Q. 1. Define barter exchange.

Ans. Barter exchange refers to exchange of goods for goods.

Q. 2. What is meant by double coincidence of wants?

Ans. Double coincidence of wants refers to simultaneous fulfillment of the mutual wants of buyers and sellers.

Q. 3. Define money.

{CBSE, All India 2011}

Ans. Money is anything which is generally accepted as a medium of exchange, measure of value, store of value and standard of deferred payments.

Q. 4. What is the basic characteristic of money?

Ans. General acceptability.

Q. 5. Define money supply?

{CBSE, Foreign 2004, Delhi 2011}

Ans. Money supply refers to the total volume of money held by public at a particular point of time in an economy.

Q. 6. State whether money supply is a stock variable or flow variable.

Ans. Money supply is a stock variable because it is expressed at a particular point of time.

Q. 7. What items are included in the  $M_1$  measure of money supply?

Ans.  $M_1 = \text{Currency and coins with Public} + \text{Demand Deposits of Commercial Banks} + \text{Other Deposits with RBI.}$



**Q. 8.** State the two components of money supply. {CBSE, Sample Paper 2014}

**OR**

State the components of money supply. {CBSE, Delhi 2010, All India 2013, Delhi Comptt. 2015}

*Ans. (i) Currency and coins with public; (ii) Demand deposits of commercial banks.*

**Q. 9.** What are demand deposits?

{CBSE, Delhi 2012, 13, 14}

*Ans. Demand deposits are the deposits, which can be encashed by issuing cheques.*

**Q. 10.** What is bank money?

{CBSE, Foreign 2012}

*Ans. Bank money refers to demand deposits created by the commercial banks.*

### Short Answer Type Questions (3-4 Marks each)

1. Discuss the meaning of: (i) Currency and coins with Public; (ii) Demand deposits held by commercial banks.

2. Give the meaning of: (i) Barter Exchange; (ii) Money; (iii) Money Supply.

{CBSE, Delhi Comptt. 2013}

3. Explain the concept of money supply.

{CBSE, Delhi 2014, Foreign 2014}

4. Define money supply and explain its components.

**OR**

State the meaning and components of money supply.

{CBSE, Delhi 2017}

5. State the limitations of Barter Exchange. ~~##~~

6. Explain "difficulty in storing wealth" problem faced in the barter system of exchange.

{CBSE, All India 2017}

{CBSE, Foreign 2017}

7. Define money. List its components.

### Long Answer Type Questions (6 Marks each)

1. What is meant by 'money supply'? Discuss, in brief, the various constituents of money supply. ~~##~~

2. Discuss the limitations of Barter Exchange.

3. Explain the concepts of: (i) Currency and coins with Public; (ii) Demand deposits held by commercial banks.