LIQUIDITY MANAGEMENT

TI &RM Chapter 9

Q: 1 Liquidity can be defined as the comprehensive ability of a bank to meet liabilities exactly when they fall due or when depositors want their money back. Which is NOT a source of liquidity for banks?

a) Cash reserves exceeding the Cash Reserve Ratio (CRR

b) Investments in SLR securities over and above the mandatory requirements

c) Investments in T-bills, top-rated short-term paper and loans to top-rated companies

d) Holding illiquid long-term real estate assets

Q: 2 Prime asset are Highly Liquid Assets that can be quickly converted into cash without significant loss in value, ensuring that the bank can meet its short-term obligations

(like deposit withdrawals or loan disbursements).Which of the following is NOT considered a prime asset for liquidity?

a) Treasury bills

b) Top-rated commercial papers

c) Long-term corporate bonds

d) loans to top-rated companies

Q: 3 Which of the following is NOT true about Export Credit Refinance by RBI?

a) Provided under Section 17(3A) of the RBI Act, 1934

b) It is based on pre-shipment and post-shipment outstanding rupee export credit

c) Currently provided at 100% of the outstanding export credit

d) Export credit refinance facility is available at the Repo Rate under the Liquidity Adjustment Facility

Q: 4 Match the following financial institutions with the type of loans they refinance:

Column A (Institutions)	Column B (Loan Categories)
A. SIDBI	1. Refinance for agricultural and allied activities
B. NABARD	2. Refinance for micro units under PMMY
C. EXIM Bank	3. Refinance for import and export-related credit
D. MUDRA	4. Refinance to small-scale industrial units

a) A → 4, B → 1, C → 3, D → 2

b) A → 2, B → 4, C → 1, D → 3

c) A → 3, B → 2, C → 4, D → 1

d) A → 1, B → 3, C → 2, D → 4

Q: 5 Match the MUDRA refinance products with their loan coverage ranges:

Column A (MUDRA Products)	Column B (Loan Amount Range)
A. Shishu	1. Rs. 50,000 to Rs. 5 lakh
B. Kishore	2. Up to Rs. 50,000

C. Tarun	3. Rs. 5 lakh to Rs. 10 lakh

a) A → 2, B → 1, C → 3

b) A → 1, B → 2, C → 3

c) A → 3, B → 1, C → 2

d) A → 2, B → 3, C → 1

Q: 6In a liquidity-short situation, a bank would naturally source funds by considering which of the following?

a) Cheapest funds from call money market, repos, securities, and refinance cost

b) Only refinance facilities provided by the Reserve Bank of India

c) Long-term fixed deposits from retail customers immediately

d) Selling all non-performing assets to raise cash quickly

Q: 7In extraordinary liquidity shortage situations, which entity provides liquidity support to banks based on merits against collateral of securities?

a) Reserve Bank of India (RBI)

b) Small Industries Development Bank of India (SIDBI)

c) National Bank for Agriculture and Rural Development (NABARD)

d) Export-Import Bank of India (EXIM Bank)

Q: 8Which of the following is NOT a typical response to a liquidity-shortage situation?

a) Selling government securities

b) Borrowing in the repo market

c) Investing in long-term fixed deposits

d) Seeking refinance from RBI

Q: 9Which of the following statements about managing surplus liquidity by banks is/are correct?

1. Banks lend excess funds to other banks in the short-term money market to earn interest.
2. Reverse repos are used by banks to Banks use reverse repos to temporarily buy securities and earn returns by selling them back later.
3. Banks invest surplus funds in short-term securities like T-bills and Commercial Papers for returns.
4. Banks use surplus liquidity to repay refinance obligations and reduce interest costs.

a) Only statements 1, 3, and 4 are correct

b) Only statements 2 and 4 are correct

c) Only statements 1 and 2 are correct

d) All statements 1, 2, 3, and 4 are correct

Q: 10 What does CRR (Cash Reserve Ratio) represent?

a) Percentage of a bank's deposits that must be kept as cash reserve with RBI

b) Percentage of a bank's total assets invested in government securities

c) The interest rate charged by RBI to banks

d) The minimum capital required by banks to operate

Q: 11 The maintenance of Cash Reserve Ratio (CRR) is governed by different laws in India. Which of the following correctly states the applicable laws?

a) Scheduled banks maintain CRR under Section 42(1) of the RBI Act, 1934, and other banks under Section 18 of the Banking Regulation Act, 1949.

b) Scheduled banks maintain CRR under Section 18 of the Banking Regulation Act, 1949, and other banks under Section 42(1) of the RBI Act, 1934.

c) Both scheduled and other banks maintain CRR under Section 42(1) of the RBI Act, 1934 only.

d) CRR maintenance is voluntary for both scheduled and other banks.

Q: 12 Which of the following is NOT true about CRR?

a) Scheduled banks must maintain CRR with the RBI

b) Non- Scheduled banks can keep CRR with themselves or in current accounts with RBI .

c) Banks earn interest on the CRR balance maintained with RBI

d) Increase in CRR increases the cost of funds for banks

Q: 13 Demand Liabilities of a bank are liabilities which are payable on demand. All of the following are components of Demand Liabilities EXCEPT__________

a) Current deposits

b) Fixed deposits not yet matured

c) Demand Liabilities Portion of Savings Bank Deposits

d) Margins held against letters of credit

Q: 14 Time liabilities of a bank include__________

a) **Fixed Deposits (FDs):** Deposits locked for a fixed term, repayable on maturity.

b) **Cash Certificates:** Instruments with a fixed maturity date issued by banks.

c) **Time Portion of Savings Bank Deposits:** The non-withdrawable part of savings accounts.

d) All of the above

Q: 15 Other Demand and Time Liabilities (ODTL) include_______

1. Interest accrued on deposits
2. Bills payable, unpaid dividends

3. Suspense account balances representing amounts due to other banks or public
4. Amounts owed to the banking system that are neither deposits nor borrowings.

a) 1 and 2 only

b) 1, 2, and 3 only

c) 1, 2, 3, and 4

d) 2 and 4 only

Q: 16 As defined under Section 42 of the RBI Act, 1934, liabilities of a bank may be towards the banking or towards others. Which of the following is considered 'liabilities to others' for CRR?

a) Loans from RBI

b) Customer deposits

c) Interbank borrowings

d) Loans from commercial Bank

Q: 17 Which of the following correctly lists what constitutes assets with the banking system?

1. Balances with banks in current accounts
2. Balances with banks and notified financial institutions in other accounts
3. Funds made available to the banking system by way of loans
4. Any other amounts due from the banking system not classified under the above items

A) 1 and 2 only

B) 1, 2, and 3 only

C) 2, 3, and 4 only

D) 1, 2, 3, and 4

Q: 18 Which of the following liabilities are not to be included for DTL/NDTL computation?

a) Paid up capital, reserves, any credit balance in the Profit & Loss Account of the bank.

b) The Amount received from DICGC (Deposit Insurance and Credit Guarantee Corporation) towards claims

c) Amount of any loan taken from the RBI and the amount of refinance taken from Exim Bank, NHB, NABARD, SIDBI.

d) All of the above

- The liabilities arising on account of **utilization of limits under Bankers' Acceptance Facility (BAF);**
- **Subsidy of Rs.10,000 kept in Subsidy Reserve Fund account** in the name of Self Help Groups.
- **Subsidy released by NABARD** under Investment Subsidy Scheme for Construction/Renovation/Expansion of Rural Godowns;
- **Net unrealized gain/loss arising** from derivatives transaction under trading portfolio.
- **Income flows received in advance** such as annual fees and other charges which are not refundable;
- **Bill rediscounted by a bank** with eligible financial institutions as approved by RBI.

Q: 19 Which of the following statements is true regarding the CRR maintenance system introduced after November 6, 1999?

a) RBI introduced a fortnightly lag, allowing banks 14 days to maintain required CRR levels.

b) 95% of the total required CRR is maintained on all days of the fortnight

c) Reserve Bank does not pay any interest on the CRR balances maintained by SCBs

d) All of the above

Q: 20 What is the penalty if a Scheduled Commercial Bank fails to maintain 95% of the CRR daily requirement?

a) No penalty

b) A penal interest is charged at a rate of 3% above the Bank Rate on the shortfall amount for that day.

c) If the shortfall continues into the next day(s), the penal interest increases to 5% above the Bank Rate.

d) Both b and c

Q: 21 A customer deposits ₹100 in a bank. The bank pays 8% annual interest on this deposit. The Cash Reserve Ratio (CRR) is 4%, which the bank must maintain with RBI without earning any interest. What is the bank's effective cost of the usable funds?

a) 8.00%

b) 8.25%

c) 8.33%

d) 8.50%

Q: 22 Under which legal provision is the Reserve Bank of India empowered to prescribe the Statutory Liquidity Ratio (SLR) to be maintained by banks in specified assets?

a) Section 42 of the Reserve Bank of India Act, 1934

b) Section 24 of the Banking Regulation Act, 1949

c) Section 35A of the Banking Regulation Act, 1949

d) Section 22 of the Banking Regulation Act, 1949

Q: 23 If a scheduled commercial bank has total DTL of ₹1,000 crore, and the RBI's SLR requirement is 18%, what is the minimum value of approved securities and other liquid assets the bank must maintain?

a) ₹80 crore

b) ₹180 crore

c) ₹360 crore

d) ₹400 crore

Q: 24 The Statutory Liquidity Ratio (SLR) provisions state that banks must hold liquid assets not exceeding 40% of their total DTL. Which of these is NOT a specified asset category that counts towards SLR?

a) Government treasury bills

b) Gold (as permitted under RBI guidelines)

c) Equity shares of private companies

d) Approved state government securities

Q: 25 Which scheme allows Scheduled Commercial Banks (SCBs) to borrow up to 2% of their Net Demand and Time Liabilities (NDTL) from the Reserve Bank of India?

a) Liquidity Adjustment Facility (LAF)

b) Marginal Standing Facility (MSF)

c) Market Stabilisation Scheme (MSS)

d) All of the above

Q: 26 What is the primary function of the FX-CLEAR platform?

a) Trading and settlement of government securities

b) Trading and settlement of foreign exchange transactions

c) Trading and settlement of corporate bonds

d) Trading and settlement of commodities

Q: 27 Match the following platforms with their functions:

Platform	Function
A. FX-SWAP	1. Real-time settlement of transactions
B. RTGS	2. Forex trading and settlement
C. FX-CLEAR	3. Order matching in forex swaps

a) A-3, B-1, C-2

b) A-2, B-3, C-1

c) A-1, B-2, C-3

d) A-3, B-2, C-1