

## Principles of Banking (E.M) - ICOM Part 2 Principles of Banking Chapter 2 Short Questions Preparation

Q1. What is formula of credit creation.

**Ans 1:** i- Deposit Multiplier  $\times$  1/ Reserve ratio

**Ans 2:**  $D \times 1/R$

**Ans 3:** ii- Total deposits = Primary Deposit  $\times$  1/ Reserve ratio

**Ans 4:** Total deposits - Primary deposits = Loans

Q2. What is the meant by Bank GIRO credit.

**Ans 1:** Bank GIRO Credits can be paid into a bank account by the customer of the business, in which case the amounts will appear automatically on the business's bank statement.

Q3. What are the various forms of cash reserve.

**Ans 1:** i- Cash with central bank

**Ans 2:** ii- Cash in hand in form of coins and currency

**Ans 3:** iii- Balance receivable from other banks

Q4. What is meant by Overdraft.

**Ans 1:** A bank permits his trustworthy customers to withdraw the amount more than the amount which is lying in his current account.

Q5. What is fixed deposit account.

**Ans 1:** Fixed deposits are those deposits, which are re-payable only after the expiry of a certain period of time. The rate of interest is high as compared to the other accounts.

Q6. What is the meant by Cash Credit.

**Ans 1:** The bank advances loans to business against certain specified securities. The amount of loans is credited to the current account of the borrower. The borrower withdraws money according to the requirements but pays interest on the utilized amount.

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Q7. Define Bridge loans.

**Ans 1:** Sometimes bankers do not disburse the amount of loan which they have sanctioned to the borrower due to delay or deficiencies in the completion of the documentation formalities, where as the borrower needs the money badly in this situation the bank arrange some loan for a short period as a stop gap arrangement . This is called " Bridge loan".

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Q8. Define Balance sheet of a bank

**Ans 1:** Balance sheet is a statement of the assets and liabilities of a trading concern at any particular point in time, usually at the last day in the financial year of the trading concern.

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Q9. Give any three limitations of credit creation.

**Ans 1:** i- Central Bank credit control policy

**Ans 2:** ii- Lack of securities.

**Ans 3:** iii- Nature of bank accounts

**Ans 4:** iv- Effect of religious

**Ans 5:** v- Political condition vi- Primary deposits

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Q10. What is current Account.

**Ans 1:** Current Account: The depositors can withdraw the money deposited in the current account at any time. The banks do not pay interest on this account. Bank provide overdraft facility on this account.

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