

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 x 1/ Reserve ratio

Ans 2: $D \times 1/R$

Ans 3: ii- Total deposits = Primary Deposit x 1/ Reserve ratio

Ans 4: Total deposits - Primary deposits = Loans

Q2. 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. Banks provide overdraft facility on this account.

Q3. What is Saving Account.

Ans 1: Saving Account: Saving account is a very popular form of account in the middle income group people deposit their savings with the bank. The rate of interest is lower than other accounts.

Q4. 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

Q5. 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, whereas the borrower needs the money badly in this situation the bank arranges some loan for a short period as a stop gap arrangement. This is called "Bridge loan".

Q6. 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

Q7. What is meant by Discounting Bill of Exchange.

Ans 1: If a creditor holding a Bill of exchange wants money immediately the bank provides him the money by discounting the Bill of exchange. Which means that the bank will not pay the full amount of bill, but a specified amount from the bill will be deducted.

Q8. What is Foreign currency Account.

Ans 1: In Pakistan this account can be opened in few foreign currencies. This account is exempted from Tax and Zakat. The rate of interest is determined by the Central bank.

Q9. What is the importance of Balance sheet.

Ans 1: 1- The balance sheet of a bank shows its worth on the particular date.

Ans 2: 2- The general profitability of a bank comes forth by studying the trends of profits as mentioned in the balance sheet.

Ans 3: 3- Study of balance sheet shows the policy of the bank for extending credit to the customers.

Ans 4: 4- Study of balance sheet reveals whether the bank is sound, growing and has a promising future or not.

Q10. What is money at Call.

Ans 1: The loans, which are advanced at a nominal interest with the promise that, these will be returned to the banks on a short notice.