

Central Banking & Commercial Banking (MB341B) : April 2008

Section A : Basic Concepts (30 Marks)

- This section consists of questions with serial number 1 - 30.
- Answer all questions.
- Each question carries one mark.
- Maximum time for answering Section A is 30 Minutes.

1. Under which act, the definition of the person —resident in India“ has been aligned with the Income Tax Act 1961?

- (a) FEMA (Foreign Exchange Management Act)
- (b) FERA (Foreign Exchange Regulation Act)
- (c) BR Act (Banking Regulation Act)
- (d) RBI Act (Reserve Bank of India Act)
- (e) SCRA (Securities Contract Regulation Act).

2. A bank's loan policy and deposit costs are inter-dependent .Which of the following statement is false with regard to compensating deposit balances offered by the borrowers?

- (a) Such deposits are inexpensive
- (b) Promotional expenditure on such deposits is nil
- (c) The transaction costs incurred are minimum
- (d) It provides greater access to credit
- (e) The deposits are relatively stable.

3.

Which act defines the regulatory jurisdiction of the RBI over various activities in the government securities market, money market and derivatives market?

- (a) The Reserve Bank of India Act (RBI Act)
- (b) Banking Regulation Act (BR Act)
- (c) Securities Contract Regulations Act (SCRA)
- (d) Foreign Exchange Regulation Act (FERA)
- (e) Foreign Exchange Management Act (FEMA).

4. Project financing some times operates through a special purpose vehicle (SPV). From the options given below identify the characteristic(s) of a SPV business entity.

- I. It has no assets of its own beyond those of the project.
 - II. The assets are jointly owned by project participants.
 - III. SPV insulates the other participants from the financial obligations and risks assumed by the project.
- (a) Only (I) above
 - (b) Only (II) above
 - (c) Both (I) and (II) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above.

5. With regard to the most important business implications of NPAs, which of the following is not a quantifiable implication?

- (a) It leads to credit risk management

- (b) It assumes priority over the other aspects of bank's functioning
- (c) Disinclination to take decisions
- (d) Bank's whole machinery is engaged with recovery procedures
- (e) Bank's are forced to incur carrying costs on non income yielding assets.

6. Lending is the principal business activity and is also the predominant source of revenue for banks. Which is/are the source(s) of risk(s) involved to a bank's safety and soundness?

- I. Lax credit standards.
- II. Poor portfolio risk management.

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III. Weakness in the economy.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only(III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

7. Which of the following factors is not related to the payment history of credit scoring?

- (a) Payment information on many types of accounts
- (b) Public record and collection items
- (c) Details on late or missed payments
- (d) Isolates various characteristics on delinquencies
- (e) How many accounts show no late payments.

8. Which type of deposit account(s) generally display low amount of activity in terms of deposit withdrawals?

- I. Time deposits.
- II. Certificate of deposits.
- III. Savings accounts.
- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) All (I), (II) and (III) above.

9. Which of the following statements is/are not considered as primary in charting a monetary policy in the new cyber world?

- I. The IT induced changes affect the structure of the real economy.
- II. The IT induced changes with regard to payment and settlement system will have major influence on the monetary policy.
- III. It becomes easy to select economic indicators and interpret them.
- IV. IT would affect the day to day market operations of a central bank.
- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) (II), (III) and (IV) above
- (e) All (I), (II), (III) and (IV) above.

10. Which act(s) provide(s) the legal frame work for the prudential regulation and supervision of banks, NBFcs and FIs?

I. RBI Act.

II. Banking Regulation Act.

III. Companies Act.

(a) Only (I) above

(b) Only (II) above

(c) Only (III) above

(d) Both (I) and (II) above

(e) All (I), (II) and (III) above.

11. The pricing policy of a bank is based on many variables. Which of the following variables is false?

(a) Customer relationship pricing

(b) Promotional pricing of new products

(c) Intense competition raises the deposit interest costs

(d) Product differentiation as marketing element

(e) Deposit costs and volumes.

12. Under consumer credit analysis banks rely on the subjective appraisal of the borrower. Which of the following statement is false with regard to such appraisal?

(a) Obtain personal references

(b) Verification of employment status

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(b) Verification of employment status

(c) Check the accuracy of the loan application

(d) Reference to comprehensive analytical format

(e) Consideration to collateral is secondary.

13. Which of the following is not a liability of the banking department?

(a) Notes (transferred from the issue department)

(b) Rupee coins

(c) Foreign securities

(d) Small coins

(e) Bills purchased and discounted (Including Government T-Bills).

14. Which of the following functions of Credit Information Bureau of India Limited (CIBIL) is false?

(a) Collects and collates credit and financial information on borrowers

(b) Undertakes research projects

(c) Undertakes any other business with the prior approval of RBI

(d) Rates the borrowers

(e) Provides credit information to the specified users.

15. As per Section 26 of the Banking Regulation Act, all accounts in India, which could not be operated for a period of _____ after the close of each calendar year are considered as unclaimed deposits.

- (a) 5 years
- (b) 10 years
- (c) 12 years
- (d) 15 years
- (e) 20 years.

16. Which factor(s) has/have contributed for the banking sector monopoly over the payment and settlement services offered by them?

- I. Free use of infrastructure.
- II. Network externality.
- III. New providers for payment and settlement services.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) Both (II) and (III) above.

17. Which city has the dual benefit of trading with Japan in the morning and USA in the afternoon?

- (a) Ottawa
- (b) London
- (c) Boston
- (d) Berlin
- (e) Chicago.

18. Banks offer two types of Portfolio Management Services viz. discretionary and non discretionary. Which of the following is/are not a discretionary service?

- I. The portfolio manager to take investment decisions on behalf of his/her client.
- II. Unbiased investment advice customized to meet the client's needs.
- III. Transactions both in the primary and secondary markets facilitated through brokers.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

19. Out of the two emerging strategies in the banking scenario, customer relationship management is used by many retail bankers. Identify the strategy that is not focused by retail bankers.

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- (a) Maximize customer acquisition
- (b) Cross selling
- (c) About interaction between the bank and the customer
- (d) Retain customers
- (e) Increase profitability.

20. In relation to which of the following account(s), the banker cannot exercise his right of set-off?

- I. A Savings Account and an Overdraft Account.
- II. A Loan Account and a Current Account.
- III. A Loan Account and a Savings Account.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

21. Statistical Credit Scoring is not used for which of the following purposes?

- (a) To reduce defaults
- (b) To provide predefined rules and standards for loan approvals
- (c) To operate at a chosen level of risk
- (d) To calculate expected loss and profit
- (e) To guide the decision on the rate of interest.

22. Through out the credit cycle, which of the following decisions does not have bad risk implications?

- (a) Marketing
- (b) Application processing
- (c) Repayment behavior of the borrower
- (d) Accounts management
- (e) Collection.

23. Which of the following is/are not the characteristics of a participation advance?

- I. It is a joint finance by more than one bank.
- II. The security should not be common.
- III. The advance should be to the same party/company.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (I) and (II) above
- (e) All (I), (II) and (III) above.

24. Which of the following statements is/are false with regard to the draw down facility sanctioned to a borrower under syndicated loan?

- I. The borrower can draw the loan amount over a period of time.
- II. The commitment of the lenders is not terminated at the end of the draw down period.
- III. The undrawn amounts are cancelled if not availed during the period.

- (a) Only (I) above
- (b) Only (II) above
- (c) Only (III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

25. The department of supervision was split into Department of Banking Supervision (DBS) and Department of Non-Banking Supervision (DNBS) .Which of the following is not a function performed by DNBS?

- (a) Attending to complaints relating to NBFCs

- (b) On-site inspection and follow up
- (c) Deals with financial sector frauds
- (d) Initiates deterrent action against the errant companies
- (e) Identification and classification of NBFCs.

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26. Which of the following is not true with regard to globalization of financial services?

- (a) Provides better technology
- (b) Less vulnerable to economic shocks
- (c) Greater access to international commodity markets
- (d) Bank failures and capital flight
- (e) Lead to financial crisis in Mexico.

27. The borrower enjoys which kind of freedom under syndicated loan versus consortium?

- I. Competitive pricing.
- II. The convenient mode of raising long term credit.
- III. Fixed repayment period.
- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

28. Who took over the function of debt management subsequent to the nationalization of Bank of England?

- (a) Bank of England
- (b) H.M. Treasury
- (c) Financial services authority
- (d) Audit Committee
- (e) Banks Court.

29. Which of the following statements is not true with regard to market penetration deposit pricing strategy?

- (a) It emphasizes on profits and cost recovery in the short run
- (b) It is used to know the added cost of bringing new deposits
- (c) Average cost of funds on each source of funds is taken into account
- (d) It enables to know any change in deposit prices
- (e) Charging the customer for the total cost of deposit related services.

30. The sound credit scoring model does not predict which of the following?

- (a) The future performance of an individual loan
- (b) Credit worthiness of a borrower
- (c) Predicting potential bankruptcy
- (d) Profitability attrition
- (e) Frauds.