Q90

The money multiplier in an economy increases with which one of the following? (a) Increase in the cash reserve ratio (b) Increase in the banking habit of the population (c) Increase in the statutory liquidity ratio (d) Increase in the population of the country Official key: B.

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Explanation

(a)

(a) A higher cash reserve ratio locks more cash with RBI and lowers the money multiplier. Not the key.

(b) Official key

(b) If more of the public banks its cash, the currency-deposit ratio falls and a larger share of high-powered money supports deposits and credit. The money multiplier rises. That is the official key.

(c)

(c) A higher statutory liquidity ratio ties up bank resources in eligible securities and reduces the multiplier. Not the key.

(d)

(d) A larger population does not, by itself, raise the multiplier; habits and reserve ratios do. Not the key.

Summary

Official key is (b). The money multiplier rises when people use banks more (lower currency-deposit ratio) and when reserve ratios fall. CRR and SLR hikes shrink it. Population size is not the lever. Honour (b).

Related possible facts

These can be asked in a future Prelims paper.

Money multiplier
Broad money / reserve money (high-powered money)

Currency-deposit ratio
Falls as banking habit spreads; raises the multiplier

CRR
Cash Reserve Ratio; inverse to the multiplier

SLR
Statutory Liquidity Ratio; also binds lendable resources

Reserve money
Currency in circulation plus bankers' deposits with RBI