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Q50

If you withdraw Rs. 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be (a) to reduce it by Rs. 1,00,000 (b) to increase it by Rs. 1,00,000 (c) to increase it by more than Rs. 1,00,000 (d) to leave it unchanged Official key: D.

UPSC Civil Services Prelims 2020 · General Studies · 2 marks · Economy

Indian economy, budget, schemes - Prelims GS Paper I.

Explanation

(a)

Reduce M3 by ₹1 lakh. Currency in hand is still money.

(b)

Increase by ₹1 lakh. Double-counts; deposits fall as cash rises.

(c)

Increase by more. Multiplier talk is not the immediate effect.

(d) Official key

Leave it unchanged. Demand deposits fall; currency with the public rises by the same amount. Immediate M3 is the same.

Summary

Official key is (d). Withdrawing cash from a demand deposit swaps one component of money supply for another. Immediately, aggregate money supply is unchanged.

Related possible facts

These can be asked in a future Prelims paper.

M3
Currency with public + deposits.

Reserve drain
The later multiplier effect if the bank's reserves stay lower - not the immediate identity.

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