Q11

The money multiplier in an economy increases with which one of the following? (a) Increase in the Cash Reserve Ratio in the banks (b) Increase in the Statutory Liquidity Ratio in the banks (c) Increase in the banking habit of the people (d) Increase in the population of the country Official key: C.

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

Explanation

(a)

Higher CRR. Ties up cash; multiplier falls.

(b)

Higher SLR. Same direction - more idle reserves.

(c) Official key

Increase in the banking habit. More deposits inside banks, less cash leakage - multiplier rises.

(d)

Population increase. Not a multiplier parameter.

Summary

Official key is (c). The money multiplier rises when people hold more of their money as bank deposits (banking habit) rather than cash. CRR and SLR increases shrink it.

Related possible facts

These can be asked in a future Prelims paper.

Money multiplier
≈ 1 / (CRR + excess + cash-deposit leak).

Currency-deposit ratio
Leakage; falls as banking habit spreads.