

## CHAPTER-3

### MONEY AND CREDIT



#### SUMMARY

- **BARTER SYSTEM:** It is a system in which goods are exchanged for other goods.
- **LIMITATIONS OF BARTER SYSTEM:** Lack of double coincidence of wants, Difficulty of storing value. Differed payments are difficult, Some goods are indivisible.
- **MONEY:** Anything which is used as a medium of exchange, store of value and standard of differed payments is called money.
- **FUNCTIONS OF MONEY:** Medium of Exchange, Store of value.
- **CREDIT:** Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.
- **TERMS OF CREDIT:** Collateral security, Documentation required, Term of the loan, Mode of repayment and Rate of interest
- **IMPORTANCE OF CREDIT FOR FARMERS IN RURAL AREAS:** Farmers need credit to buy seeds, fertilisers pesticides, electricity, equipment etc. There is a minimum period of three to four months between the time when the farmers buy these inputs and when they sell the crop. Farmers usually take crop loans at the beginning of the season and repay the loan after harvest.
- **FORMAL SOURCES OF CREDIT:** Commercial Banks, co-operative societies and Regional Rural Banks constitute the formal sector of credit The Reserve Bank of India

supervises the functioning of formal sources of loans. They collect low rate of interest. They follow some well-defined rules and procedures.

- **INFORMAL SOURCES OF CREDIT:** The informal lenders include moneylenders, traders, employers, relatives and friends etc. There is no organisation which supervises the credit activities of lenders in the informal sector. They collect high rate of interest They do not follow any rules or procedures .
- **SOURCES OF CREDIT IN RURAL AREAS:** Money Lenders 30%. Other informal sources 18%, Cooperative Societies 27%, Banks 52%.
- **CREDIT IN URBAN AREAS:** Poor takes 85% credit from informal sources and only 18% from banks and other formal sources Rich takes more than 90% of loans from formal sources so formal sources mostly serve the rich people.



## I Multiple Choice questions.

1M

- Exchange of goods against goods without the use of money
  - debt trap
  - money system
  - barter system
  - credit system
- help borrowers overcome the problem of lack of collateral and also they are the building blocks of organization of the rural poor.
  - Government
  - Banks
  - private sector
  - SHGs
- Organization which supervises the credit activities of lenders in the informal sector.
  - no organization
  - state government
  - RBI
  - Central government
- Deposits which can be withdrawn on demand
  - refundable deposits
  - acceptable deposits
  - returnable deposits
  - demand deposits
- Contribution of cooperatives and commercial banks as a source of credit for rural households in India in 2010.
  - 30%
  - 48%
  - 52%
  - 56%
- An asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid.
  - Multilateral
  - Collateral
  - Bilateral
  - terms of credit

- 7 Banks use major portions of their deposits to
- Keep as reserve so that people can withdraw
  - Extend loans
  - Meet their routine expenses
  - All the above
- 8 Terms of credit does not include \_\_\_\_\_.
- Interest rate
  - Cheque
  - Collateral
  - Mode of payment
- 9 Modern form of currency includes \_\_\_\_\_.
- Gold bars
  - Coins
  - Bank notes
  - Silver
- i and ii
  - ii and iii
  - iii and iv
  - i and iv
- 10 Compared to the formal lenders, most of the informal lenders charges much \_\_\_\_\_ interest on loans
- lower
  - higher
  - moderate
  - nominal
- 11 A typical SHG has \_\_\_\_\_ members, usually belonging to one neighbourhood, who meet and save regularly.
- 50-60
  - 20-45
  - 30-40
  - 15-20
- 12 Money is accepted as a medium of exchange because the currency is authorized by \_\_\_\_\_.
- State Government
  - Central Government
  - Both a and b
  - None of the above
- 13 An agreement in which the lender supplies the borrower with money, goods or services in return for the future payment.
- Credit
  - Chit fund
  - Collateral
  - Cheque
- 14 Anything which is generally accepted by the people in exchange of goods and services.
- Money
  - Credit
  - Barter
  - collateral





*farmers promise to sell the crop to him. This way the trader can ensure that the money is repaid promptly. Also, since the crop prices are low after the harvest, the trader is able to make a profit from buying the crop at a low price from the farmers and then selling it later when the price has risen.*

- a. How agricultural trader plans to receive loan repayment from farmers?
  - b. Who is paying more money while repaying loan?
  - c. Who do you think might be affected less and who is affected more by loan?
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