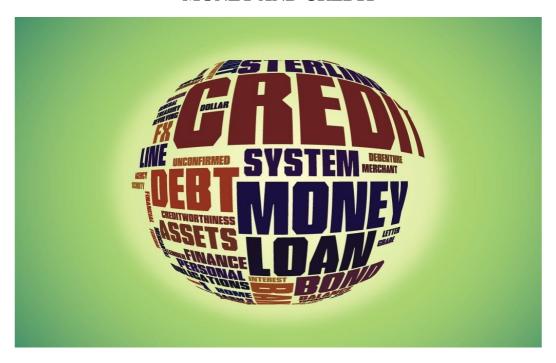
CHAPTER-3 MONEY AND CREDIT



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.





Multiple Choice questions.

1M

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- Deposits which can be withdrawn on demand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

d) terms of credit

7	Banks	nks use major portions of their deposits to					
	a)	Keep as reserve so that people can withdraw					
	b)	Extend loans					
	c)	Meet their routine expenses					
	d)	All the above					
8	Terms	ns of credit does not include					
	a)	Interest rate					
	b)	Cheque					
		Collateral					
	d)	Mode of payment					
9	Modern form of currency includes						
	i.	Gold bars					
		Coins					
	iii	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						
10	compe	interest on loans					
	a)	lower					
		higher					
		moderate					
	,	nominal					
11	,	cal SHG has members, usually belonging to one neighbourhood,					
••	who meet and save regularly.						
		50-60					
	,	20-45					
	,	30-40					
	,	15-20					
12							
12	2 Money is accepted as a medium of exchange because the currency isauthorized by						
		State Government					
		Central Government					
	,	Both a and b					
	,	None of the above					
13	An agreement in which the lender supplies the borrower						
13	with money, goods or services in return for the future						
	payme						
		Credit					
	,	Chit fund					
	,	Collateral					
	,	Cheque					
14		ing which is generally accepted by the people in					
		age of goods and services.					
		Money					
		Credit					
	,	Barter					

d) collateral

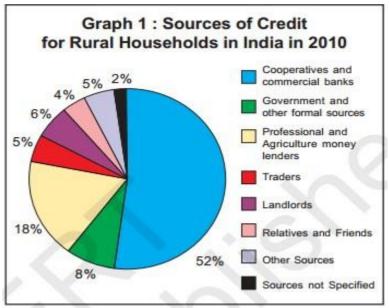
	16	A paper instructing the bank to pay a specific amount from the person's account to the person in whose name it has been made.					
			bank note	b) overdraft			
		c)	cheque	d) credit card			
	17	Both parties agree to sell and buy each other's commodities. a) measure of value b) double coincidence ofwants					
		c)	store of value	d) credit			
	18	After a year or two, if the SHG is regular in its savings, it becomes eligible for availing loan from					
			cooperative societies	b) bank			
	10	,	money lenders	d) traders			
	19	a village near Sonpur has					
			s as members.) 2500	(ii) 2350			
		(ii	ii)2400	(iv)2300			
	20	-	/she has to sell a part of the lan	money lender and he/she is caught in debt nd to pay off thedebt. This situation is an			
		-	debt trap	b) debt insecurity			
		c)	debt loss	d) all of the these			
	II Very Short Answer questions				1M		
	1	What is collateral?					
	2	What is called terms of credit?					
	 3 Why are demand deposits called so? 4 What are the modern forms of money in India? III Short Answer questions 						
]							
	1	What is the difference between money and credit?					
	2	Make a cheque on your friend's name for Rs. 50,000/- Fill in thedetails and discuss with your teacher.					
	3						
	4						



IV Short Answer questions

3M

1 From the given pie chart, interpret and explain the total formal and informal sources of credit, by answering the following questions:



- a. Formal Sources of credit and their total percentage:
- b. Informal Sources of credit and their total percentage:
- c. Give reason for the prevalence of huge informal sources.
- 2 How does money serve as a medium of exchange? Explain.
- 3 Explain loan activities of the banks.
- 4 Ms. Manisha has taken membership of a Self-Help group named Saraswati Self-Help group. Help Mr. Chennram to help her understand about Self-Help group.

V Long Answer Questions

5M

1 "Self Help Groups support has brought about a revolutionary change in the rural sector". Explain any five areas where according to you it is able to contribute the most.

VI Read the following passage and answer the given questions:

1+1+2

Shyamal tells us that every season he needs loans for cultivation on his 1.5 acres of land. Tilla few years back, he would borrow money from the village moneylender at an interest rate of five per cent per month (60% per annum). For the last few years, Shyamal has been borrowing from an agricultural trader in the village at an interest rate of three percent per month. At the beginning of the cropping season, the trader supplies the farm inputs on credit, which is to be repaid when the crops are ready for harvest. Besides the interest charge on the loan, the trader also makes the

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?