



Introduction -

Money and Credit



Importance of money in everyday life. 🐛



Goods are being bought and sold with the use of money. In some of these transactions, services are being exchanged with money.



Money

For some, there might not be any actual transfer of money taking place now but a promise to pay money later.



Credit



Introduction -

**Why only
money?**

**What was the
situation before the
invention of money?**

Class 10th - Economics - Money and Credit - Full Chapter Explanation



Introduction -

Case I

Case II



Introduction -

Money



In the absence of money we would have to rely on the *double coincidence of wants*.



What a person desires to sell is exactly what the other wishes to buy.



The transaction in absence of money is known as *Barter system*.



A system where goods are directly exchanged without the exchange of money.



Introduction -

Money as a medium of exchange



Economy with money



Eliminate the need for double coincidence of wants.



Explain



Money



Acts as an intermediate in the exchange process.



∴ Money as a medium of exchange.

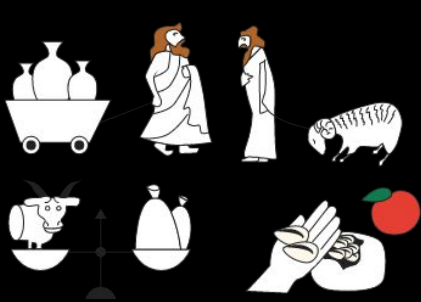


What we are going to study in this chapter?



- **Money as a medium of exchange**
- **Modern forms of money**
 - **Currency**
 - **Deposits with banks**
- **Loan activities of banks**
- **Two different credit situations**
- **Terms of credit**
- **Variety of credit arrangements**
- **Formal sector credit in India**
- **Self-help groups for the poor**
 - **Grameen bank of Bangladesh**

Modern Forms of Money -



Money as a medium of exchange for transaction.





Modern Forms of Money -

Currency



- Modern form of money (paper notes and currency)

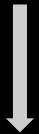


Issue



- Modern currency is not made of precious metal such as gold, silver and copper.
- Unlike grain and cattle, they are neither of everyday use.
- The modern currency is without any use of its own.

Fiat value, No intrinsic value



Then why it is accepted as medium of exchange?



→ Because it is authorised by the government of the country.



Modern Forms of Money -

Authorised by the government of the country



- The Reserve Bank of India issues currency notes on behalf of the central government.
- No other individual or organisation is allowed to issue currency.
- No individual in India can legally refuse a payment made in rupees.





Modern Forms of Money -

Deposits with Banks



- Deposits with banks people have



Also a type of money.



Extra cash



People deposit it with bank (Bank account).



- Banks pay an amount as interest on the deposits.
- People's money is safe.
- People also have the provision to withdraw the money as and when they require.

→ Can be withdrawn on demand



Demand deposits

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Modern Forms of Money -

→ Demand deposits offer another interesting facility. →

Cheque

A cheque is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.

Advantages

Cheque Payments

A shoe manufacturer, M. Salim has to make a payment to the leather supplier and writes a cheque for a specific amount. This means that the shoe manufacturer instructs his bank to pay this amount to the leather supplier. The leather supplier takes this cheque, and deposits it in his own account in the bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is complete without any payment of cash.

He Payee

Pay **PREM KUMAR**

₹.RS. 57000/-

Account number **16137926023**

Bank branch code **362255**

भारतीय स्टेट बैंक
State Bank of India
(1600) NCERT (NEW DELHI)
N.E. CAMPUS,
851 ALKO-BINDO MARG,
NEW DELHI 110016

M. Salim.

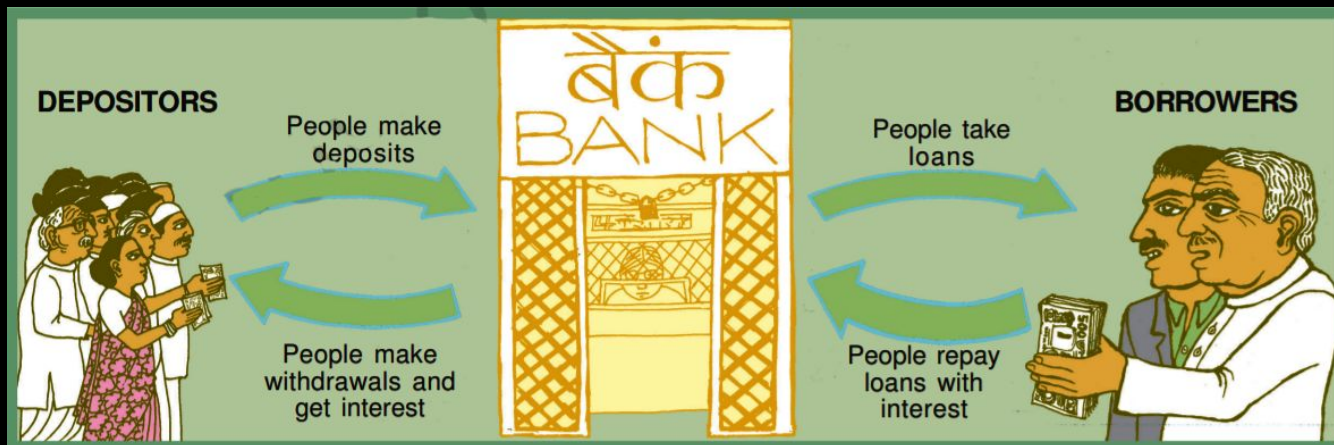
₹ 36 2255 110002078 000313 10

Cheque number Coding used by banks



Loan Activities of Banks -

→ What do the banks do with the deposits which they accept from the public? 🤖






Loan Activities of Banks -

Loan activities of Banks - On ground



- Banks keep a small proportion of their deposits as cash with themselves.
- पैसों का करता क्या है बैंक? 



- Banks make use of the deposits to meet the loan requirements of the people.
- Banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers).
- Banks charge a higher interest rate on loans than what they offer on deposits.
- The difference between what is charged from borrowers and what is paid to depositors is their main **source of income.**



Two Different Credit Situations -

Credit



Loan



The lender supplies the borrower with money, goods or services in return for the promise of future payment.

Story of Salim



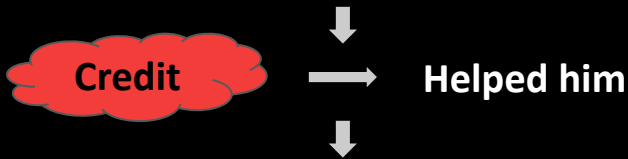
Story of Swapna





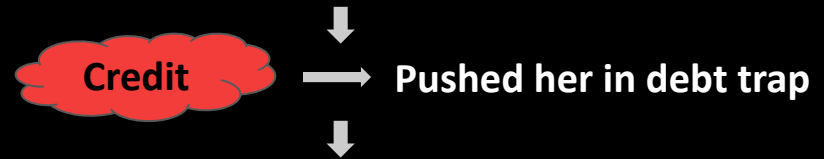
Two different Credit Situations -

Story of Salim



- Helps him to meet the ongoing expenses of production, complete production on time, and thereby increase his earnings.
- Credit therefore plays a vital and positive role in this situation.

Story of Swapna



- The failure of the crop made loan repayment impossible.
- She had to sell part of the land to repay the loan.

Analyse 

Whether credit would be useful or not, therefore, depends on the risks in the situation and whether there is some support, in case of loss.



Terms of Credit -

What is terms of credit?



→ Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit.



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Terms of Credit -

Interest Rate



Borrower must pay to the lender along with the repayment of the principal.

Collateral



Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

Documentation requirement



Paperwork

Mode of Payment



Installment/
Lump Sum Cash/
Gold/ Property

→ Terms of credit may vary depending on the nature of the lender and the borrower.





Variety of Credit Arrangements -

Rama is working in a neighbouring field. She works as an agricultural labourer. There are several months in the year when Rama has no work, and needs credit to meet the daily expenses. Expenses on sudden illnesses or functions in the family are also met through loans. Rama has to depend on her employer, a medium landowner in Sonpur, for credit. The landowner charges an interest rate of 5 per cent per month. Rama repays the money by working for the landowner. Most of the time, Rama has to take a fresh loan, before the previous loan has been repaid. At present, she owes the landowner Rs 5,000. Though the landowner doesn't treat her well, she continues to work for him since she can get loans from him when in need. Rama tells us that the only source of credit for the landless people in Sonpur are the landowner-employers.

Take an example of village 





Variety of Credit Arrangements -

Shyamal tells us that every season he needs loans for cultivation on his 1.5 acres of land. Till a 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 per cent 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.





Variety of Credit Arrangements -

We next meet Arun who is supervising the work of one farm labourer. Arun has seven acres of land. He is one of the few persons in Sonpur to receive bank loan for cultivation. The interest rate on the loan is 8.5 per cent per annum, and can be repaid anytime in the next three years. Arun plans to repay the loan after harvest by selling a part of the crop. He then intends to store the rest of the potatoes in a cold storage and apply for a fresh loan from the bank against the cold storage receipt. The bank offers this facility to farmers who have taken crop loan from them.





Variety of Credit Arrangements -

Loans from Cooperatives

Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives, industrial workers cooperatives, etc. Krishak Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.





Formal Sector Credit in India -

Formal sector loans



Loans from banks and cooperatives.



The Reserve Bank of India supervises the functioning of formal sources of loans.



How?



Informal sector loans



Moneylenders, traders, employers, relatives and friends, etc.



There is no organisation which supervises the credit activities of lenders in the informal sector.



Why?





Formal Sector Credit in India -

How reserve bank in India supervises the functioning of formal sources of loans?



- The RBI monitors the banks in actually maintaining cash balance.
- The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, etc.
- Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.





Formal Sector Credit in India -

Credit activities in Informal sector



No organisation which supervise it



- Interest rate is high.
- Lender use unfair means to get their money back.

Interest rate ↑



Cost of borrowing ↑



Large part of the earnings of the borrowers is used to repay the loan.



Debt trap

→ People who might wish to start an enterprise by borrowing may not do so because of the high cost of borrowing. 🐻



Formal Sector Credit in India -

What can done to improve the situation in informal sector?



→ Banks and cooperative societies need to lend more.

Why?



Cheap and affordable credit is crucial for the country's development.





Formal Sector Credit in India -

Formal and Informal credit : Who gets what?



- Majority of poor household gets loans from informal sector.
- Majority of rich household gets loan from formal sector.



What's the problem?



- The formal sector still meets only about half of the total credit needs of the rural people.
- The remaining credit needs are met from informal sources. Most loans from informal lenders carry a very high interest rate and do little to increase the income of the borrowers.



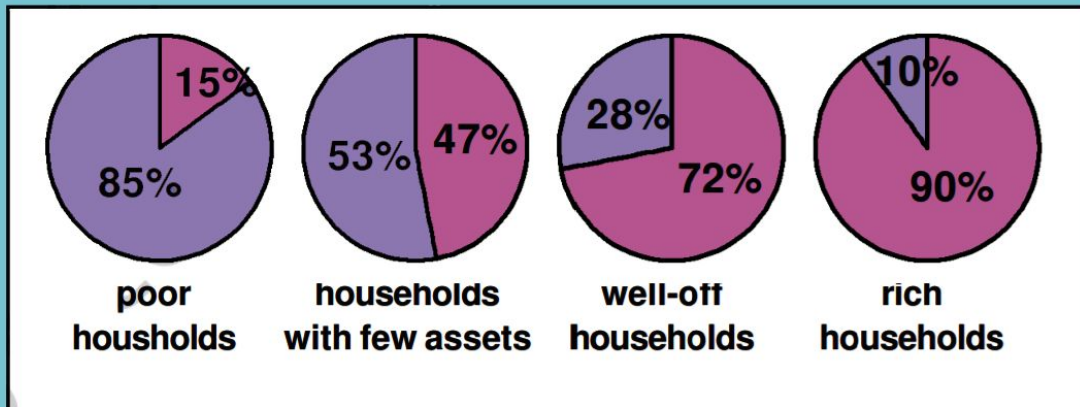
Solution





Formal Sector Credit in India -

Graph 2 : Of all the loans taken by urban households, what percentage was formal and what percentage was informal?



BLUE : Per cent of loans from the **INFORMAL** sector

PURPLE : Per cent of loans from the **FORMAL** sector



Formal Sector Credit in India -



Solution



- Thus, it is necessary that banks and cooperatives increase their lending particularly in the rural areas, so that the dependence on informal sources of credit reduces.
- Secondly, while formal sector loans need to expand, it is also necessary that everyone receives these loans.



Self-Help Groups for the Poor -

- Poor households → Depends on informal sector → Why? 
- ↓
- Banks are not present everywhere in rural India. → Absence of collateral 
 - Getting a loan from a bank is much more difficult than taking a loan from informal sources.
 - Absence of collateral is one of the major reasons which prevents, informal lenders know the borrowers personally and hence are often willing to give a loan without collateral.

Problems

→ ∴ Organising people into SHG (self help group) is necessary.



Self-Help Groups for the Poor -

What is self help group? 



- Self Help Groups (SHGs) are small groups of poor people. The members of an SHG face similar problems. They help each other, to solve their problems. SHGs promote small savings among their members



Pool fund to help their members.



- Members can take small loans from the group itself to meet their needs.
- The group charges interest on these loans but this is still less than what the moneylender charges.
- After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank.
- Empowerment of members (decision taking power, accountability).
- Provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

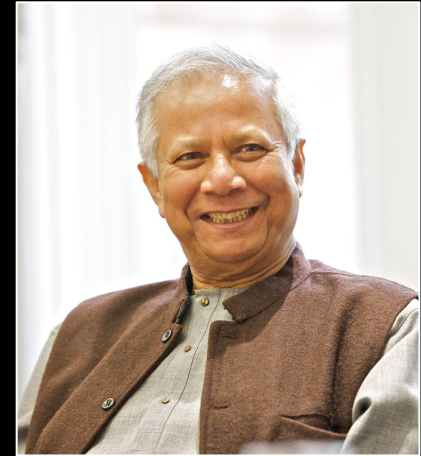


Self-Help Groups for the Poor -

Grameen bank of Bangladesh



- It was started by Professor Muhammad Yunus, the founder of Grameen Bank, and recipient of 2006 Nobel Prize for Peace.
- Started in the 1970s as a small project, Grameen Bank in 2018 had over 9 million members in about 81,600 villages spread across Bangladesh.
- Almost all of the borrowers are women and belong to poorest sections of the society.



Professor Muhammad Yunus



Chapter Completed

STAY CONNECTED

KEEP LEARNING

TOGETHER
WE CAN

