



/padhleakshay



# Money & Credit

**DONATE  
SO THAT IT  
REMAINS FREE**



padhleakshay@apl

Visit website [padhleakshay.com](http://padhleakshay.com) for more



## Important Terms

- **Actual Investment:** The actual amount of investment is called an actual investment.
- **Barter System:** Barter refers to the direct exchange of goods and services. In this way, the barter system refers to the system by which one commodity is exchanged for another without the use of money.
- **Credit:** Credit means giving money on loan to needy persons.
- **Cheque:** A cheque is a paper instructing the banks in writing to pay a specific amount from the person's account to the person in whose name the cheque has been issued.
- **Collateral:** Collateral is the security provided by a borrower (such as land, building, vehicle, livestock, deposits with banks) against a loan, and it can be sold in case of non-payment of loan.
- **Commercial Bank:** A commercial bank is an establishment for safe custody of money, which it pays out on customer's demand order or otherwise. In other words, institutions accepting deposits and issuing loans are called commercial banks.
- **Deferred Payments:** Payments which are to be made in the future are known as deferred payments.
- **Financial Formal Institutions:** Commercial banks, cooperatives and the regional rural banks are the formal institutions of credit.
- **Financial Informal Institutions:** The informal framework for the deployment of credit and savings in India comprises the local moneylenders, landlords, self-help groups, chit fund, employers, relatives, friends and private finance companies.
- **Fixed Deposits:** These are deposits for a fixed term varying from a frequency of a few days to a few years.
- **Investment:** Investment is the amount of money spent with the intention of earning income at regular intervals (in the form of return from funds invested) or in the long run (in the form of capital appreciation).
- **Loans:** A loan is usually given for a specific duration of time and needs to be completely repaid by a specified date.



- **Money:** Money may be anything chosen by common consent as a medium of exchange. It can be in the form of coins and bank notes collectively.
- **Reserve Bank of India:** The Reserve Bank of India is the only legal authority that can issue currency notes and coins on behalf of the central government
- **Short-term loans:** Loans given for a short period of time are known as short-term loans.
- **Token coins:** Token coins are the coins where value as money is far above the value of metal contained in it.

padhleakshay.com





/padhleakshay



# Multiple Choice Questions

SCAN  
&  
DONATE



padhleakshay@apl



**1) Double coincidence of wants means \_\_\_\_\_.**

- a) what a person desires to sell is exactly what the other person wishes to buy.
- b) what a person desires to sell is exactly what the other person also wishes to sell.
- c) what a person desires to buy is exactly what the other person also wishes to buy.
- d) None of the above.

**2) In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature.**

- a) False
- b) True

**3) In India, \_\_\_\_\_ issues currency notes on behalf of the Central Government.**

- a) Reserve Bank of India (RBI)
- b) Ministry of Finance
- c) Finance Commission
- d) None of the above

**4) Which of the following statements are true?**

- a) As per Indian law, apart from RBI, no other individual or organisation is allowed to issue currency.
- b) The law legalises the use of rupees as a medium of payment that cannot be refused in settling transactions in India
- c) No individual in India can legally refuse a payment made in rupees.
- d) All of the above are true.

**5) Banks in India these days hold about \_\_\_\_\_ of their deposits as cash.**

- a) 25 percent
- b) 20 percent
- c) 15 percent
- d) 5 percent

**6) Banks use the major portion of the deposits to \_\_\_\_\_.**

- a) extend loans
- b) invest in infrastructure
- c) deposit in foreign banks
- d) None of the above



**7) The difference between what is charged from borrowers and what is paid to depositors is the main source of banks' income.**

- a) true
- b) false

**8) In rural areas, the main demand for credit is for \_\_\_\_\_.**

- a) purchasing land
- b) purchasing house
- c) medical expenses
- d) crop production

**9) Which of the following is an example of collateral?**

- a) Livestock
- b) Land
- c) Deposits with banks
- d) All of the above

**10) What are the different components of the terms of credit?**

- a) Interest rate
- b) Documentation requirements
- c) Collateral
- d) All of the above

**11) Which of the following statements are correct?**

- a) Members of a cooperative pool their resources for cooperation in certain areas.
- b) Besides banks, the other major source of cheap credit in rural areas is cooperative societies.
- c) There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives, and industrial workers cooperatives.
- d) All of the above statements are true.

**12) Which of the following are examples of informal sector loans?**

- a) Moneylenders
- b) Traders
- c) Cooperatives
- d) Only (a) and (b)



### 13) As of 2012, the major source of credit to rural households in India was \_\_\_\_\_.

- a) Moneylenders.
- b) Commercial banks.
- c) Cooperative societies.
- d) Relatives and friends.

### 14) Which of the following statements are false?

- a) There is no organisation which supervises the credit activities of lenders in the informal sector.
- b) RBI stops the money lenders from using unfair means to get their money back.
- c) Compared to the formal lenders, most of the informal lenders charge much lesser interest on loans
- d) Only (b) and (c)

### 15) Which of the following statements are true?

- a) Periodically, banks do not submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.
- b) The Reserve Bank of India does not supervise the functioning of formal sources of loans.
- c) The RBI monitors the banks in actually maintaining cash balances.
- d) None of the above statements are true.

### 16) \_\_\_\_\_ of the loans taken by poor households in the urban areas are from informal sources.

- a) 85 percent
- b) 70 percent
- c) 65 percent
- d) 50 percent

### 17) \_\_\_\_\_ of the loans taken by rich households in the urban areas are from formal sources.

- a) 20 percent
- b) 10 percent
- c) 15 percent
- d) 90 percent



**18) \_\_\_\_\_ of the loans taken by well-off households in the urban areas are from formal sources.**

- a) 54 percent
- b) 64 percent
- c) 72 percent
- d) 90 percent

**19) \_\_\_\_\_ of the loans taken by households with few assets in the urban areas are from informal sources.**

- a) 72 percent
- b) 28 percent
- c) 53 percent
- d) 47 percent

**20) Which of the following could lead to a debt trap?**

- a) The high-interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower.
- b) Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.
- c) The high-interest rate for borrowing can mean that the amount to be repaid is lesser than the income of the borrower.
- d) both (a) and (b)

## ANSWER

- |             |             |              |              |              |
|-------------|-------------|--------------|--------------|--------------|
| <b>1. a</b> | <b>5. c</b> | <b>9. d</b>  | <b>13. a</b> | <b>17. d</b> |
| <b>2. b</b> | <b>6. a</b> | <b>10. d</b> | <b>14. d</b> | <b>18. c</b> |
| <b>3. a</b> | <b>7. a</b> | <b>11. d</b> | <b>15. c</b> | <b>19. c</b> |
| <b>4. d</b> | <b>8. d</b> | <b>12. d</b> | <b>16. a</b> | <b>20. d</b> |



padhle.akshay



NO BAKWAS



/padhleakshay



# Multiple Choice Questions

**SCAN  
& DONATE**



padhleakshay@apl



## **1. "The credit activities of the informal sector should be discouraged." Support the statement with arguments.**

Answer: The credit activities of the informal sector should be discouraged because:

- 85% of loans taken by the poor households in the urban areas are from informal sources. There is no organisation that supervises the credit activities of lenders in the informal sector.
- Informal lenders charge very high interest on their loans. They try to charge more and more interest on their loans as there are no boundaries and restrictions.
- Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.
- In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of borrower. This could lead to increasing debt and debt trap, therefore the credit activities of the informal sector should be discouraged.

## **2. Why do we need to expand formal sources of credit in India?**

Answer: There is no organisation that supervises the credit activities of lenders in the informal sector. They lend at whatever interest rate they choose.

- No one can stop rural money-lenders from using unfair means to get their money back.
- Informal lenders charge a very high rate of interest on loans and as a result a larger part of the earnings of the borrowers and farmers are used to pay the loans.
- The amount to be repaid is often greater than income, and farmers and other borrowers in villages fall in a debt trap.

Thus, it is necessary that banks and co-operatives increase their lending, particularly in rural areas, so that dependence on informal sources of credit ends.

## **3. What is the basic objective of 'Self Help Groups'? How do they work? Describe any four advantages of 'Self Help Groups' for the poor.**

Answer: The basic objective of 'Self Help Groups' is to organize rural poor, particularly women belonging to one neighbourhood into small Self Help Groups (15-20 members). These members save regularly and the amount varies from ₹25-100 or more depending upon their ability to save.

The four advantages of 'Self Help Groups' are as follows:

- The members can take small loans from the group itself to meet their needs. The group charges interest on these loans which is still less than what moneylenders charge.



- After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank which is sanctioned in the name of the group to create self employment opportunities. All important decisions regarding loan, purpose, amount of interest, non-payment of loan are taken by the group members.
- For instance, small loans are provided to the members for releasing mortgaged land, meeting working capital needs, for acquiring assets like sewing machines, handlooms, cattle etc.
- Since non-repayment of loans is dealt with seriously by group members, therefore banks are willing to lend to the poor women when organized in SHGs, even though they have no collateral as such. Thus, the SHGs help women to become financially self reliant.

The regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence etc.

#### **4. 'Banks and cooperatives help people in obtaining cheap and affordable loans' Which values according to you does this support?**

Answer: Cheap and affordable loans help people to grow crops, do business, set up small scale industries or trade in goods.

This promotes:

- Self reliance and financial security and independence of people.
- Protection of the relatively poor against corrupt moneylenders.
- Eradication of poverty in general.

All this indirectly helps in the country's development.

#### **5. What is Credit? Why is cheap and affordable credit important for the country's development? Give four reasons.**

Or

#### **What is credit? Explain with an example, how credit plays a vital and positive role for development.**

Answer: Credit means loans. It refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future repayment.

- Cheap and affordable credit is crucial for the country's growth and economic development. Credit is in great demand for various kinds of economic activities—big or small investments, to set up business, buying cars, houses, etc.
- In rural areas credit helps in the development of agriculture by providing funds to farmers to buy seeds, fertilizers, expensive pesticides.



- Manufacturers need credit for buying raw material or to meet ongoing expenditure of production. Credit helps in the purchase of plant, machinery, equipment, etc. Some people may need to borrow for illness, marriages etc.

Thus, cheap and affordable credit is crucial for the country's growth and economic development.

## 6. What are the two categories of sources of credit? Mention four features of each.

Answer: The two sources of credit are formal sources and informal sources:

Formal sources of credit:

- Banks and cooperative societies fall under the formal sector. One can obtain loans from banks or cooperative societies.
- The Reserve Bank of India supervises the functioning of formal sources of loans.
- Bank loans require documentation and collateral (collateral is an asset such as land, building, vehicle, livestock, deposits with the bank, etc.). This is used as a guarantee to the lender until the loan is paid back.
- Formal sources cannot charge any rate of interest from the borrowers according to their whims.

Informal sources of credit:

- In the informal sector money can be borrowed from a person, friend, relative, moneylender, traders, employers, etc.
- There is no organization that checks or supervises the activities of lenders in the informal sector.
- Loans from informal sources do not require any such collateral.
- They charge a very high rate of interest on loans as they do not require any collateral.

## 7. Which government body supervises the functioning of formal sources of loans in India? Explain its functioning.

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

Functions of Reserve Bank of India.

- RBI requires commercial banks to maintain a minimum cash balance out of the deposits they receive. The RBI monitors that the banks actually maintain the cash balance.
- RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small-scale industries, small borrowers, SHGs, etc.
- RBI issues guidelines for fixing rate of interest on deposits and lending by commercial banks.



- Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.

## **8. What are the various sources of credit in rural areas? Which one of them is the most dominant source of credit and why?**

Answer: Moneylenders are the most dominant amongst sources of credit for rural households. They constitute an informal source of credit. They charge a very high rate of interest on loans as they do not require any collateral. They are the most convenient source of credit in the rural areas.

Other sources of rural credit:

- Cooperative Societies are another major source of rural credit. They are a source of formal sector credit. Members of a Cooperative pool their resources for helping one another, e.g., Farmers' Cooperatives, Weavers' Cooperatives, etc. They offer cheap credit in rural areas for their members. Once these loans are repaid, another round of loans is offered.
- Agricultural traders, relatives and friends are other informal sources of rural credit. Some farmers borrow from agricultural traders who supply the farm inputs (such as seeds, fertilizers, pesticides, etc.) on credit at the beginning of the cropping season and repay the loans after the harvest.
- Commercial banks also give loans to rural households. However, not many rural households borrow from banks as they require proper documentation and collateral.

## **9. "Deposits with the banks are beneficial to the depositors as well as to the nation". Examine the statement.**

Answer: Benefit of deposits to the depositors:

- Bank accepts the deposits and pays interest to the depositor.
- Banks help people save their money and keep their money in safe custody of the bank.
- People can withdraw the money as and when they require.
- Banks also grant loans to people for a variety of purposes. In times of need, individuals, business houses and industries can borrow money from the banks.

Benefit of deposits to the Nation:

- Banks use the major proportion of the deposit to extend loans.
- There is a huge demand for loans for various economic activities. In times of need, business houses and industries can borrow money from the banks.
- Banks mediate between those who have surplus funds and those who are in need of these funds. Thus, it helps in the economic development of the Nation.



## **10. How do banks play an important role in the economy of India? Explain.**

Answer: Banks help people to save their money and keep their money in safe custody. To ensure safety of their money, people deposit their money with banks. Banks accept deposits and pay interest on deposits. People have the provision to withdraw their money as and when they require.

- Banks also grant loans to people for a variety of purposes. In times of need individuals, business houses and industries can borrow money from the banks.
- Credit provided by banks is crucial for the country's growth and economic development. Credit is needed for all kinds of economic activities, to set up business, buy cars, houses, etc.
- Banks also help people in obtaining cheap and affordable loans. This can help people to grow crops, do business, set up small-scale industries or trade in goods and also help indirectly in the country's development. They should do so, so that relatively poor people do not have to depend on informal sources of credit (money-lenders).

## **11. Describe the vital and positive role of credit with examples.**

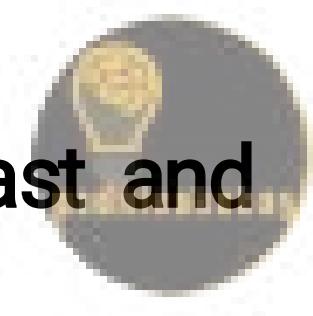
Answer: In the festive season, a shoe manufacturer, Ram receives an order from a large trader in town for 3,000 pairs of shoes to be delivered in a month's time. To complete production on time Ram has to hire workers for stitching and pasting work. He has to purchase the raw materials. To meet these expenses Ram obtains loans from two sources.

- First, he asks the leather supplier to supply leather now and promises to pay him later.
- Second, he obtains loan in cash from the large traders as advance payment for 1000 pairs of shoes with a promise to deliver the whole order by the end of the month.
- At the end of the month, Salim is able to deliver the order, make a good profit and repay the money he had borrowed.
- Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses of production, complete production on time and thus increase his earnings. Credit therefore plays a vital and positive role in this situation.

## **12. How can the formal sector loans be made beneficial for poor farmers and workers? Suggest any five measures.**

Answer: Formal sector loans can be made beneficial for poor farmers and workers in the following ways:

- Create greater awareness among farmers about formal sector loans.



- Process of providing loans should be made easier. It should be simple, fast and timely.
- More number of Nationalized Banks/cooperative banks should be opened in rural sectors. Banks and cooperatives should increase facility of providing loans so that dependence on informal sources of credit reduces.
- The benefits of loans should be extended to poor farmers and small scale industries.
- While formal sector loans need to expand, it is also necessary that everyone receives these loans. It is important that formal credit is distributed more equally so that the poor can benefit from cheaper loans.

padhleakshay.com



padhle.akshay



NO BAKWAS



/padhleakshay



# Case-Based Questions

SCAN  
& DONATE



padhleakshay@apl



## QUESTION 1

**Read the following passage carefully and answer the following questions.**

In recent years, people have tried out some newer ways of providing loans to the poor. The idea is to organise rural poor, in particular women, into small Self Help Groups (SHGs) and pool (collect) their savings. A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly. Saving per member varies from 25 to 100 or more depending on the ability of the people to save. 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. Loan is sanctioned in the name of the group and is meant to create self-employment opportunities for the members. For instance, small loans are provided to the members for releasing mortgaged land, for meeting working capital needs (e.g. buying seeds, fertilisers, raw materials like bamboo and cloth), for housing materials, for acquiring assets like sewing machine, handlooms, cattle, etc.

**(i) Fill in the blanks from the given options:**

**In Self Help Groups, ..... decide the savings and loan activity option.**

- (a) Reserve Bank of India
- (b) Members
- (c) Co-operatives
- (d) Rural Banks

**Ans. (b) In Self Help Groups, group members decide the savings and loan activity options.**

**(ii) 85% of the loans taken by the poor households in the rural areas are from which of the following sources?**

**Identify the source from the given options.**

- (a) Cooperatives
- (b) Government Bank
- (c) Informal Sources
- (d) Local bank

**Ans. (c) 85% of loans taken by the poor households in rural areas are from informal sources.**

**(iii) Which of the following aspect is correct regarding the Self Help Groups?**

**Identify the correct option.**



- (a) They have mainly encouraged rural women to obtain credit.
- (b) They have helped women to become self-reliant.
- (c) They have helped women to discuss on relevant issues like health.
- (d) All of the above

**Ans. (d) All the given statements are correct.**

**(iv) Why Self Help Groups (SHG) are growing in popularity? With reference to the above context, infer the appropriate option.**

- (a) As they provide loans at a nominal rate of interest.
- (b) They create self-employment opportunities for its members.
- (c) Both (a) and (b)
- (d) As members of SHG's require collateral to get loans.

**Ans. (c) Self Help Groups are growing in popularity as they provide loans at nominal rate of interest and they create self-employment opportunities for its members.**

**QUESTION 2**

**Read the following passage carefully and answer the following questions.**

Modern forms of money include currency-paper notes and coins. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. And unlike grain and cattle, they are neither of everyday use. The modern currency is without any use of its own. Then, why is it accepted as a medium of exchange? It is accepted as a medium of exchange because the currency is authorized by the government of the country. In India, the Reserve Bank of India issues currency notes on behalf of the central government. As per Indian law, no other individual or organization is allowed to issue currency. Moreover, the law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India. No individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.

**(i) Modern forms of money include currency**

- (a) Gold, silver and copper.
- (b) Stone punch marks coins.
- (c) Paper notes and coins.
- (d) None of the above.

**Ans. (c) Paper notes and coins.**



## **(ii) Why modern currency is accepted as a medium of exchange?**

- (a) Because it is used by everyone.
- (b) Because it is authorized by the government of the country.
- (c) Because making of modern currency very easy.
- (d) All of the above.

**Ans. (b) Because it is authorized by the government of the country.**

## **(iii) Which one of the following authorises money as a medium of exchange?**

- (a) Reserve Bank of India.
- (b) State bank of India.
- (c) Ministry of Finance.
- (d) None of the above.

**Ans. (a) Reserve Bank of India.**

## **(iv) Give an example of Modern forms of money?**

- (a) Demand draft.
- (b) Deposit form.
- (c) ATM card
- (d) All of the above.

**Ans. (d) All of the above.**



padhle.akshay



NO BAKWAS



/padhleakshay



# Table Based Questions

**DONATE  
SO THAT IT  
REMAINS FREE**



padhleakshay@apl

Visit website [padhleakshay.com](http://padhleakshay.com) for more



## QUESTION 1

Study the table given below and answer the questions that follow:  
**PEOPLE DEPENDING ON FORMAL SECTOR CREDIT IN URBAN AREAS**

Category	Percentage of people
Poor households	15%
Households with few assets	47%
Well-off households	72%
Rich households	90%

(i) Poor household's share of formal credit in the urban areas is low as compared to that of rich households. Why is it so?

(ii) Mention two difficulties faced by poor households in taking loans from a formal sector.

Answer:

(i) Poor households share of formal credit in urban areas is low as compared to that of rich households due to the following reasons:

- (a) Poor generally lack collateral guarantees and do not have a proper mode of repayment.
- (b) Informal sources of credit are generally flexible in timings, rate of interest, repayment schedule, etc.

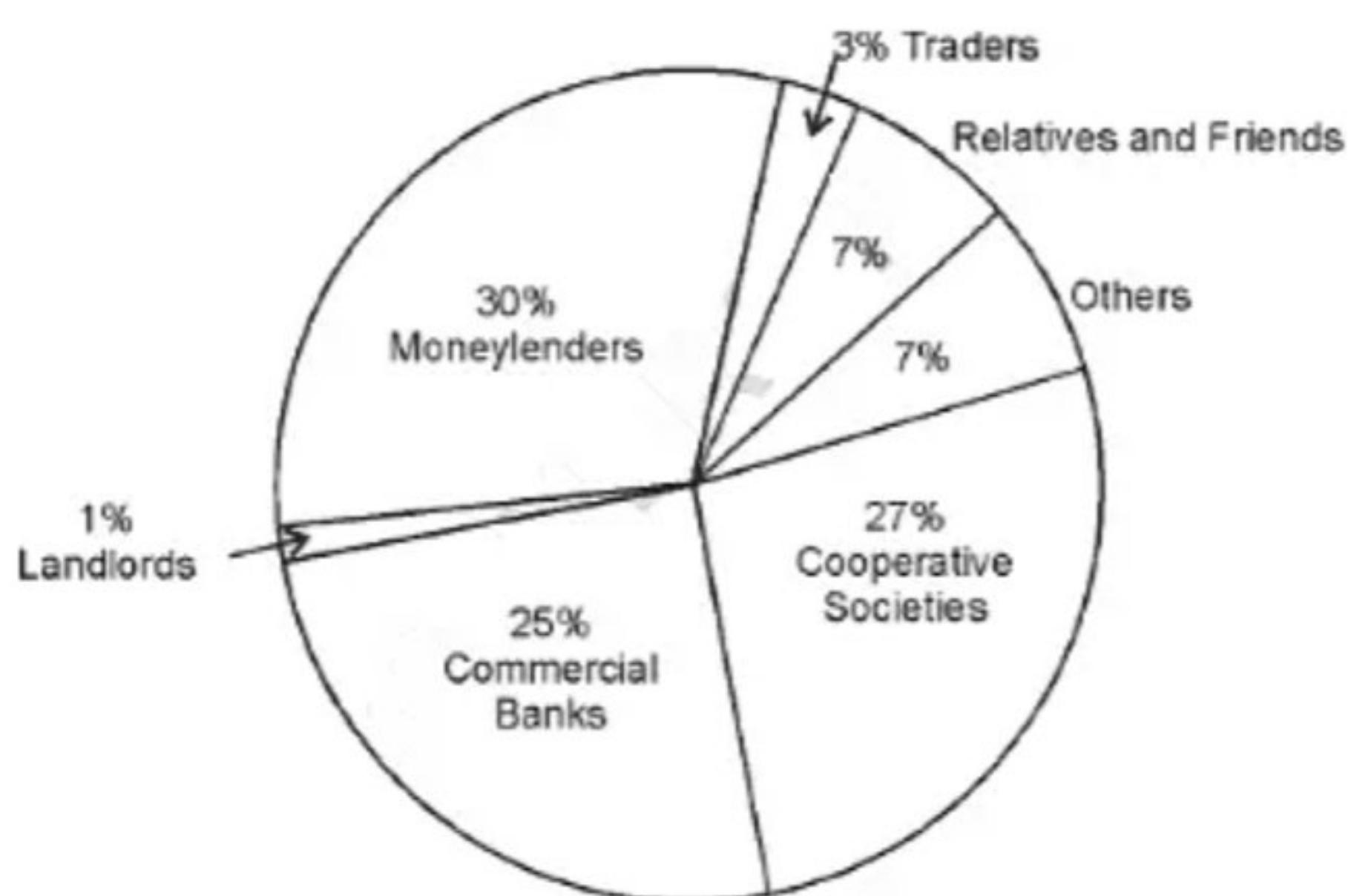
Therefore, it is easier for the poor to approach moneylenders as they know them personally.

(ii)

- (a) Poor are not able to satisfy general terms of credit mostly collateral guarantees.
- (b) Informal moneylenders know the poor borrowers personally and therefore flexible in terms of the repayment schedule, amount and interest, etc.

## QUESTION 2

Study the diagram given below and answer the questions that follow:



Sources of credit for Rural Households in India in 2003.

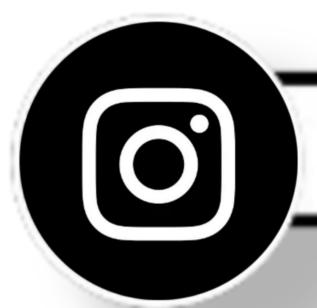


- (a) Which are the two major sources of credit for rural households in India?
- (b) Which one of them is the most dominant source of credit for rural households?
- (c) What is the most dominant source of credit? Give two reasons.

Answer:

- (a) Moneylenders and cooperative societies.
- (b) Moneylenders
- (c) (i) Moneylenders do not ask for collateral.  
(ii) Complicated paperwork or documentation is not involved.

padhleakshay.com



padhle.akshay



NO BAKWAS