

MONEY AND CREDIT

- NCERT Explanation
- Previous Year Questions
- MCQs
- Homework Questions

The use of money spans a very large part of our everyday life.

It is used
to buy and
sell goods.

Exchange
of services
for money.

Promise to
pay money
later.

Why money is used for transaction?

REASON

- A person holding money can easily exchange it for any commodity or service that he or she might want.
- Thus everyone prefers to receive payments in money and then exchange the money for things that they want.



How were transactions done in olden days?

BARTER SYSTEM

It is a medium in which goods/services are exchanged directly without a common unit.

Also known as double coincidence of wants.



A system in which goods are exchanged for goods is known as BARTER SYSTEM.

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

Difficulty with the Barter System

I'll sell shoe
for milk.



I'll sell milk for
cloth.



I'll sell cloth
for shoe.



Conflicting wants - Hence exchange impossible.

Money works as an **intermediary**. It is used as a **medium of exchange** for **goods & services**.

Everyone prefers to receive payments in money.

Money eliminates the need for double coincidence of wants.

MODERN FORMS OF MONEY

- We have seen that money is something that can act as a medium of exchange in transactions.
- Before the introduction of coins, a variety of objects was used as money.
- For example, since the very early ages, Indians used grains and cattle as money.
- Thereafter came the use of metallic coins — gold, silver, copper coins — a phase which continued well into the last century.

EVOLUTION OF MONEY



BARTER



GOLD



METAL
COINS



PAPER
MONEY



PLASTIC
CARDS



ELECTRONIC
MONEY



CRYPTO
CURRENCY



*Early punch-
marked coins
(may be 2500
years old)*



*Gold
Mohar
from
Akbar's
reign*



*Gupta
coins*

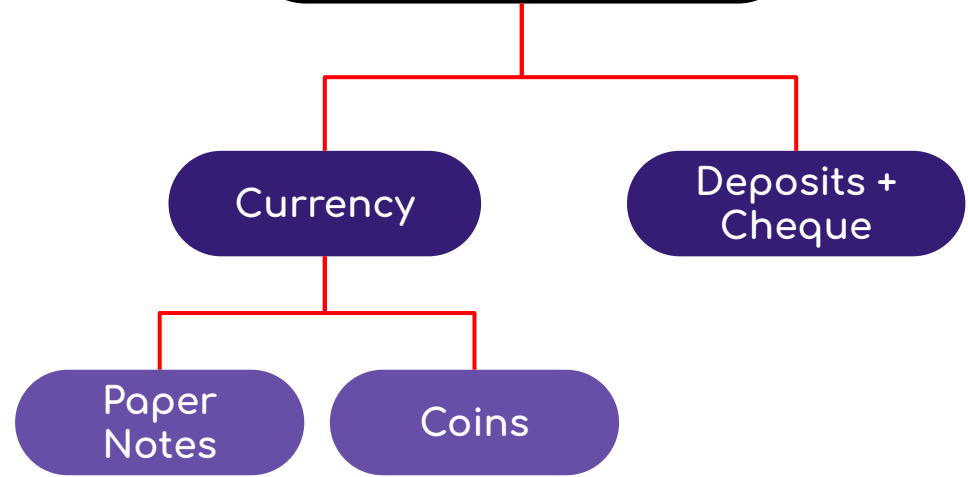


*Tughlaq
coin*



*Modern
coin*

FORMS OF MONEY



The modern currency
is without any use of its own.

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.

Ques. Why is modern currency accepted as a medium of exchange without any use of its own? Find out the reason. CBSE 2013 & 15

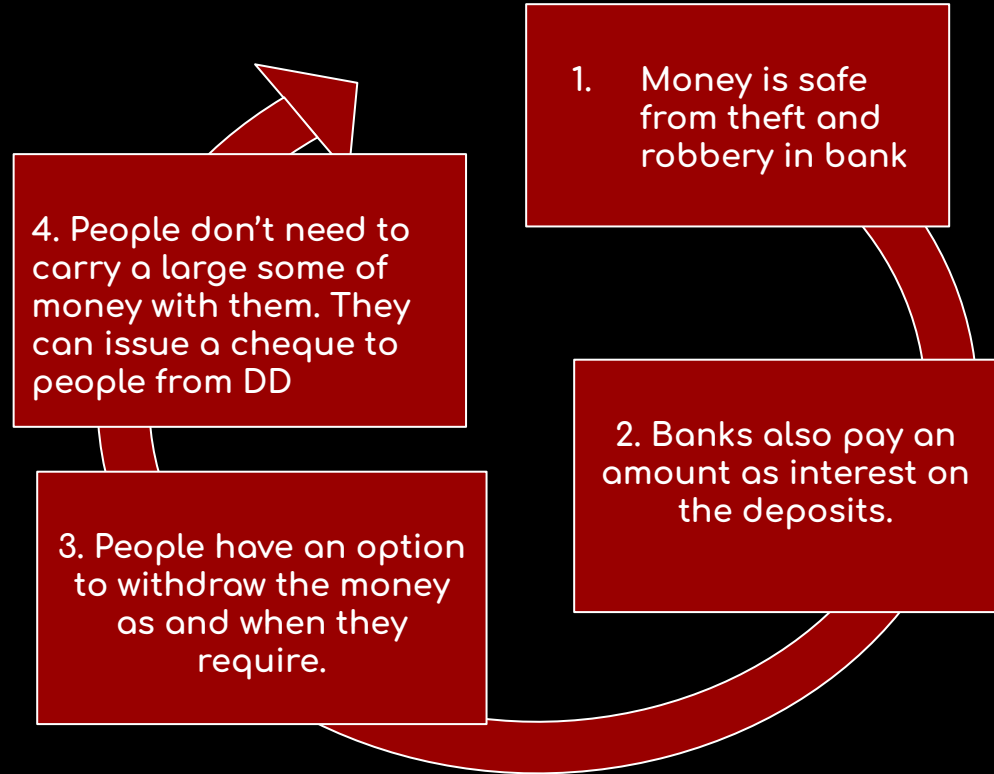
1. It is authorised by the government of India.
2. In India, the Reserve Bank of India issues currency notes on behalf of the central government.
3. No other individual is allowed to issue currency.
4. The law of the country legalises its use as a medium of payment and setting transactions.
5. No one in a country can refuse payment made in the currency of that country.

At a point of time, people need only some currency for their day-to-day needs. Rest of the money, they deposit with the banks by opening a bank account in their name. This money is known as Demand Deposit.

Demand Deposit : A deposit of money with the bank that can be withdrawn without prior notice



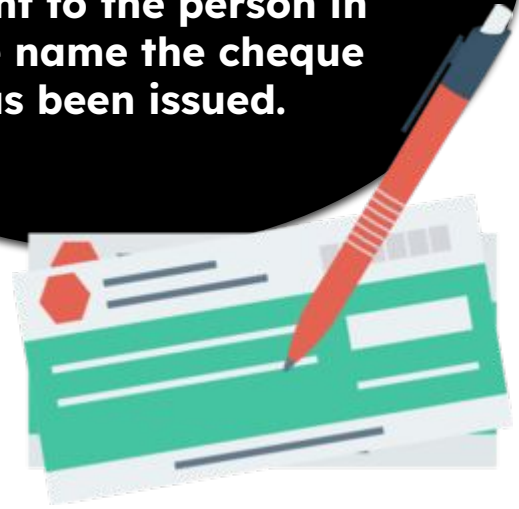
Importance of Demand Deposits:





CHEQUE

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.



Write The Name
Of The Payee

bankbaazar.com

Sample Cheque

Write The Date

Write The Amount
In Words

PAY

को या उनके आदेश पर OR ORDER

रुपये RUPEES

अदा करें

₹

Write The
Amount

Account Number

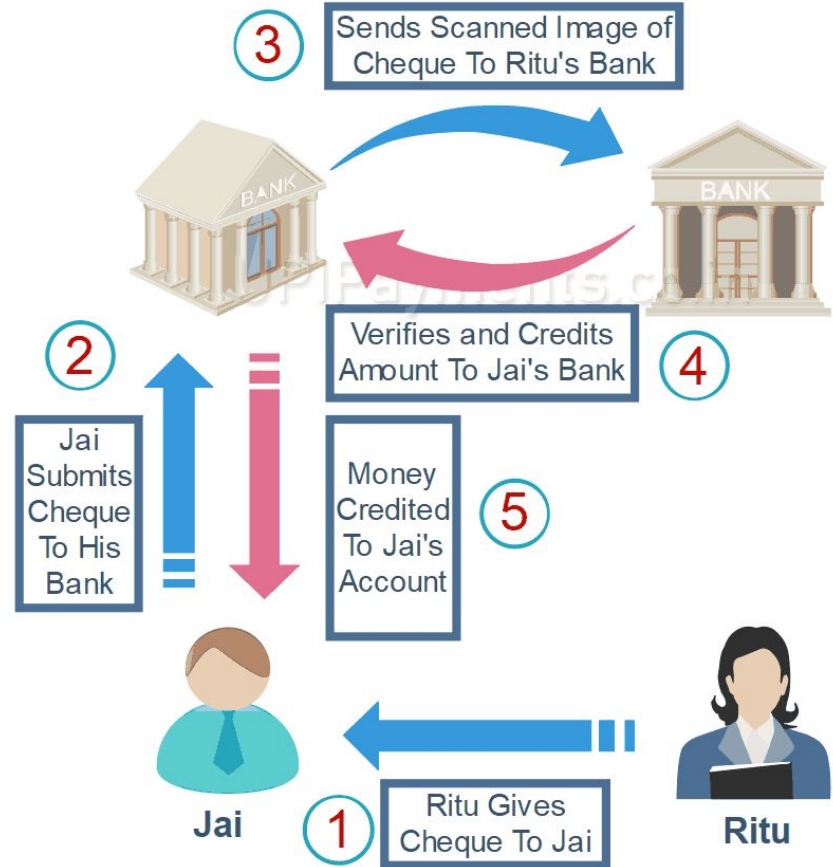
खा. नं.
A/c No.

Signature

Please sign above

⑈950020⑈ 695002032⑈ 002860⑈ 31

Cheque Clearing Process

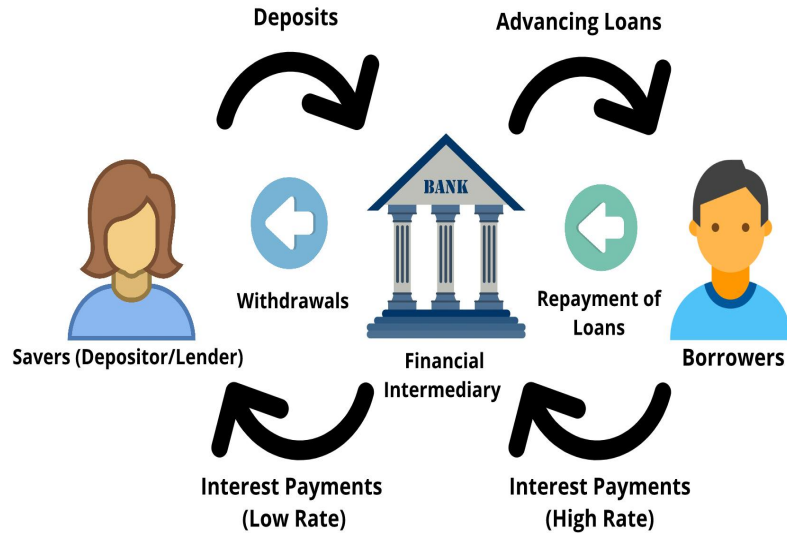


Ques. Describe the utility of cheque?

CBSE 2017

1. Cheques have the **same features of money.**
2. They **settle payments without the use of cash.**
3. They **are widely accepted as a means of payment.**
4. There **pose the least risk in transaction.**
5. In a **fair dealing, it is the most appropriate means of money transaction.**

LOAN ACTIVITIES OF BANKS



- ❑ Banks keep small proportion of their deposits as cash with themselves
- ❑ E.g., Banks in India holds about 15% of their deposits as cash.
- ❑ Why? This is kept as provision to pay the depositors who wants to withdraw deposited money at any time.

Since, on any particular day, only some of its many depositors come to withdraw cash, the bank is able to manage with this cash

Where does the rest of the deposited money go?

- ❖ The rest of deposit money is used by banks to extend loans to the people.
- ❖ There is huge demand of loan for economic activities.
- ❖ Benefit- Banks charge higher rate of interest on loans than they provide at deposits.

In this way banks mediate between those who have surplus funds & those who are in need.

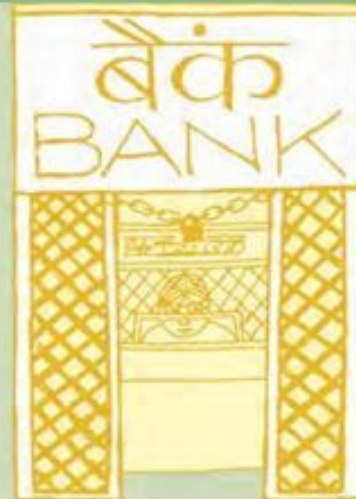
DEPOSITORS



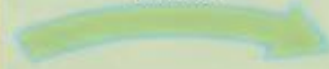
People make
deposits



People make
withdrawals and
get interest



People take
loans



People repay
loans with
interest



BORROWERS



TWO DIFFERENT CREDIT SITUATIONS

CREDIT

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



It is known as Loan in day to day lives. Credit can have both Positive and Negative impact on the lives of the borrower.

POSITIVE ROLE

Salim a shoemaker, took loans to meet the expenses for a big order & promised to repay it. At the end of the month, Salim is able to deliver the order, make a good profit, and repay the money that he had borrowed.



NEGATIVE ROLE

Swapna, a small farmer took loan from moneylender to meet the expenses of cultivation. The crop failed last year & takes a fresh loan for cultivation. However, earning is not sufficient to cover the past loan. She fell into **Debt Trap**.



DEBT TRAP

A debt trap is a situation in which a borrower is led into a cycle of re-borrowing, or rolling over, their loan payments because they are unable to afford the scheduled payments on the principal of a loan.



Ques. How does credit plays a vital and positive role? Explain with suitable example.

CBSE 2010, 15, 16,

1. It helps people from all walks of life in setting up their business, increase their income and provide support to their family needs.
2. It makes it possible for the people to own or construct their own house and get relief from monthly rent.
3. It helps people to raise their standard of living. For instance, buying a car.
4. It enables us to invest in human resource. People take credit for education, training, etc. which allows enrichment of human resource.
5. **For example**, Salim availed credit facility to meet the working capital needs of production. It helped him to meet the ongoing expenses of production, complete production on time, thereby, increasing his income.

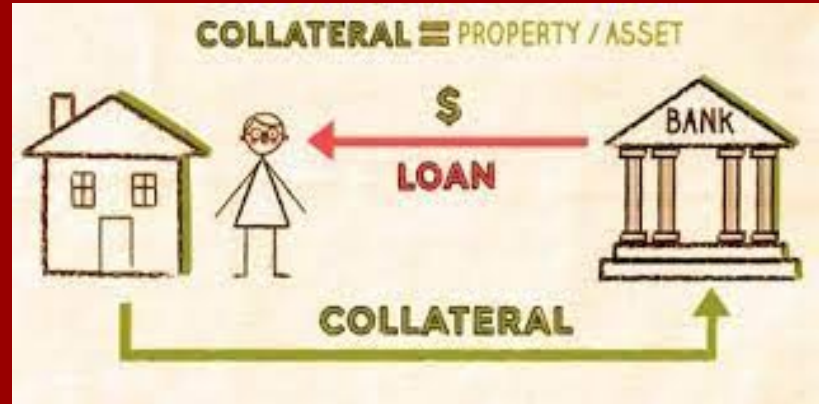
TERMS OF CREDIT

- Every loan agreement specifies an interest rate which the borrower must pay to the lender along with the repayment of the principal. These are known as Terms of Credit.
- In addition, lenders may demand collateral (security) against loans.



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.



If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

Common Examples of Collateral

Land Titles

Deposits with Banks

Livestock

Automobiles

Terms of Credit

- Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit.
- The terms of credit **vary substantially from one credit arrangement to another.**
- They may **vary depending on the nature of the lender and the borrower.**

Loans from Cooperatives

- In rural areas, cooperative societies are **cheap credit source**.
- **Member of cooperatives pool their resources** for cooperation in certain areas.
- There could be farmers cooperatives, weavers cooperatives, etc.

Example

Krishak cooperatives in village near sonpur:

- 2300 farmers are members.
- It accepts deposits from farmers.
- By putting deposit as collateral, it takes loan from the bank.
- These funds are used in advancing loans to farmers.
- Once loan is repaid, the another lending round begins.

Commercial Bank v/s Co-operative Bank

Basis of Comparison	Commercial Bank	Co-operative Bank
Objective	Making Profit	Providing Service on no-profit no-loss basis
Regulated under	RBI's Banking Regulation Act, 1949	Co-operative Societies Act, 1965
Target Segment	General public, Corporates, Government	Agriculture-based activities, Entrepreneurs, Small businesses mainly in Rural area

Sectors of Credit

```
graph TD; A[Sectors of Credit] --> B[Formal]; A --> C[Informal]; B --> D[Banks]; B --> E[Cooperatives]; C --> F["Moneylenders, traders & employers"]; C --> G[Relatives & Friends];
```

Formal

Banks

Cooperatives

Informal

**Moneylender
s, traders &
employers**

**Relatives &
Friends**

Formal Sector

- Reserve Bank of India supervises the functioning of formal sources of loans.
- It includes Banks and Cooperatives.
- A reasonable rate of interest is charged.
- Terms of credit are fair and there is no discrimination on the basis of religion, gender or caste.
- Proper terms of credit and collateral are necessary for these loans.

**We read that RBI
supervises formal
sector loan. What
else does it do?**



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

CBSE 2012

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

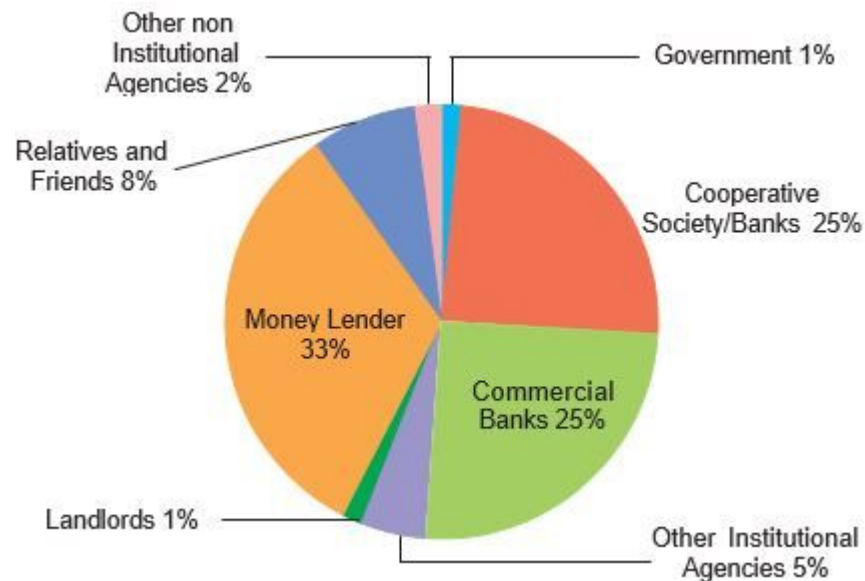
FUNCTIONING:

1. Supervises the functioning of loans in formal sector.
2. The RBI monitors the banks in actually maintaining cash balance.
3. It issues guidelines for fixing rate of interest on deposits and lending by banks.
4. It issues currency notes on behalf of the central government.
5. Periodically, the banks have to submit a report to the RBI on how much they are lending, to whom and at what interest rate.

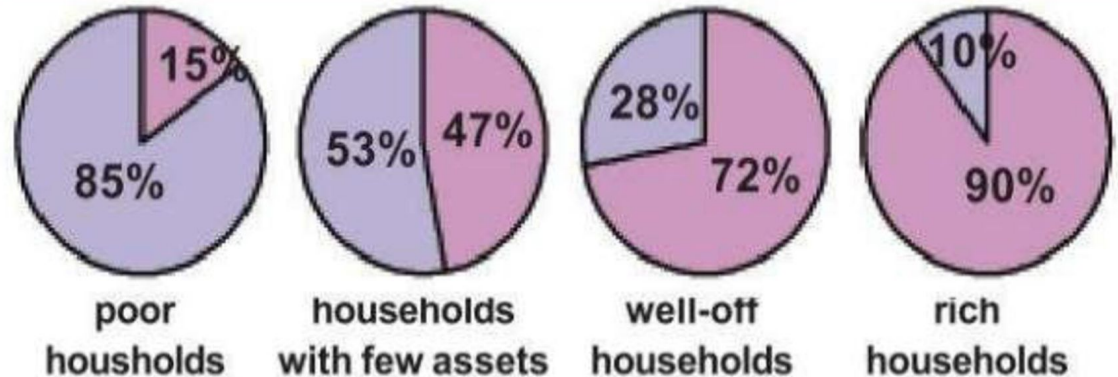
Inormal Sector

- There is no supervisory body for informal sector of loans.
- It includes friends, relatives, parents, MONEYLENDERS, etc.
- Usually a very high rate of interest is charged.
- Terms of credit can be unfair and there can be discrimination.
- Proper terms of credit and collateral are ABSENT.
- Repeated borrowing can lead to DEBT TRAP.

**Graph 1 : Sources of Credit per Rs 1000
of Rural Households in India in 2012**



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

How to reduce dependence on informal credit?

1. Cheap and affordable credit is crucial for the country's development.
2. Banks and cooperatives societies need to lend more. This would lead to higher incomes and many people could then borrow cheaply for a variety of needs.
3. Equal distribution of formal credit so that the poor can benefit from the cheaper loans.

SELF-HELP GROUPS FOR THE POOR

Why poor household are still dependent on informal sources of credit?

Lack of banks in rural areas.

Even when they are present, 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 the poor from getting bank loans.

Loan from informal sectors easy.

However, the moneylenders charge very high rates of interest, keep no records of the transactions and harass the poor borrowers.

Part of informal sector.

A typical SHG has **15-20 members** usually belonging to one neighbourhood.

Saving per member varies from **Rs 25 to Rs 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.

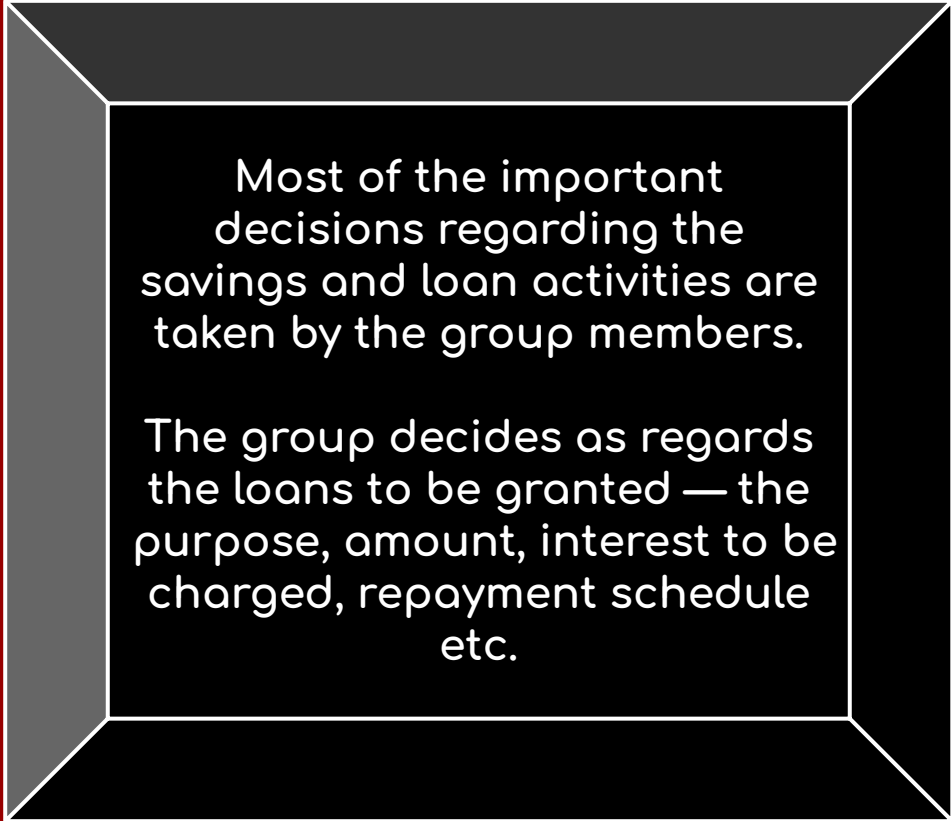


Self-Help Group (SHG)

If the group has **regular savings**, it becomes **eligible for bank loans**.

Loan is sanctioned in group's name & creates 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.



Most of the important decisions regarding the savings and loan activities are taken by the group members.

The group decides as regards the loans to be granted — the purpose, amount, interest to be charged, repayment schedule etc.

Also, it is the group which is responsible for the repayment of the loan.

Non-repayment of loan by any one-member seriously dealt with by other group members.

SHGs help borrowers overcome the problem of lack of collateral, and get timely loans at reasonable rates.

SHGs are the building blocks of organisation of the rural poor.

It not only help women become financially self-reliant, but also provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.



One of the biggest success stories in reaching the poor to meet their credit needs at reasonable rates.

Started- 1970 & meets the credit needs of over 9 million people.

Professor Muhammad Yunus- Founder of Grameen Bank & recipient of 2006 Nobel Prize for Peace

What is the idea behind the formation of Self-Help Groups or SHGs? Explain the functioning of SHGs.

CBSE 2016, 15

- Self Help Groups consist of people sharing a common local area and a common type of work or financial condition. The idea behind its functioning is to encourage people to **pool their savings** & there by increase their opportunities for earnings.
- **Members**: A typical SHG has **15-20 members**, usually belonging to one neighbourhood, who meet & save regularly.
- **Savings**: Saving per member varies from Rs. 25 to Rs. 100 or more, depending on the ability of the people to save.
- **Loans**: Members can **take small loans from the group** itself to meet their needs.
- **Interest Rate**: **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.

Find the incorrect option:

A. Demand deposit facility is like cheque

B. With demand deposit payments can be made without cash

C. Demand deposits are a safe way of money transformation

D. Demand deposit share the essential features of money

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Assertion: Borrowers when borrow from informal sources, then they fall into debt trap.

Reason: Formal sector institutions need to lend more to the borrowers in order to prevent them from falling into debt traps.

A. Both A & R are true and R is correct explanation of A

B. Both A & R are true, but R is not the correct explanation of A

C. A is true, but R is false

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Who supervises the functioning of loans in informal sectors?

A. State Bank of India

B. NABARD

C. Reserve Bank of India

D. Nobody

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Which of the following is an advantage of Self Help groups?

A. Brings empowerment in Women

B. Replaces Banks

C. Reduces the dependence on Banks

D. Both B and C

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Which one of the following banks issues currency notes on behalf of the Central Government in India?

- (a) Union Bank of India
- (b) Reserve Bank of India
- (c) State Bank of India
- (d) Government of India

SUPER TEACHERS

MOST POPULAR TEACHERS ON YOUTUBE



★★★★★
Pranay

15M+

Views



★★★★★
Rubena

16M+

Views



★★★★★
Atharva

20M+

Views



★★★★★
Shubham

50M+

Views

