



WARRIOR ONE SHOT SERIES

Class 10th Board

Economics

Money and Credit

By- Kunal Sir (KMC)



Physics Wallah

TOPICS

to be covered



- 1 Money As a Medium of Exchange
- 2 Credit
- 3 Credit Arrangements
- 4 SHG

Ques.

A person X wants to buy wheat but the person has shoes. Under which system can his/her demand be fulfilled?

- (a) Barter System
- (b) Money System
- (c) Credit card
- (d) All of the above



Shoe Seller and Wheat



Situation I : With Money



→ If a shoe seller wants to buy wheat

→ He will sell the shoes

(Chimkandi
Jooke Wale

Earn the money → Buy wheat



Shoe Seller and Wheat



Chimkandi
Jooke Wale

Situation II : Without Money

→ Wants to buy wheat but has no money
(Cannot use money)

⇒ Now, the Shocseller should find someone who has wheat and is ready to exchange it for shoes



Dogesh
Kisan

This is called → Double Coincidence of wants

Q

What do you mean by double coincidence of wants?

(1/2)



Double Coincidence of Wants



It means both the parties should agree to buy and sell each others' goods.

Ques

Sushma wants to buy a pair of jeans but she has Sandals.
Rekha has a pair of jeans but she wants a denim jacket
Which of the following is not satisfied in this case?

- (a) Triple coincidence of wants
- (b) Double coincidence of wants
- (c) Both a & b
- (d) None



Barter System



→ A type of system where the goods are exchanged.

Double coincidence of wants is an essential feature of Barter System

Ques.

How does money act as a medium of exchange?

(pxo)

(2|3)

marks



Money - Medium of Exchange

→ Q mark

P
W

Money acts as an intermediate
between buyer and seller.

So money is called
medium of exchange.

In an Economy
where money
is used

↑(d)
←(a) Money - Medium
of Exchange
(b) →(c)

Money eliminates the need for double
(Exchanging) Coincidence of Wants

In shoe seller
example
He needs to find someone
to buy shoes
will get the money
Using this, can buy what

Q Which of the following can be considered money?

- (a) Currency
- (b) Bank Deposits
- (c) Goods
- (d) Both a & b

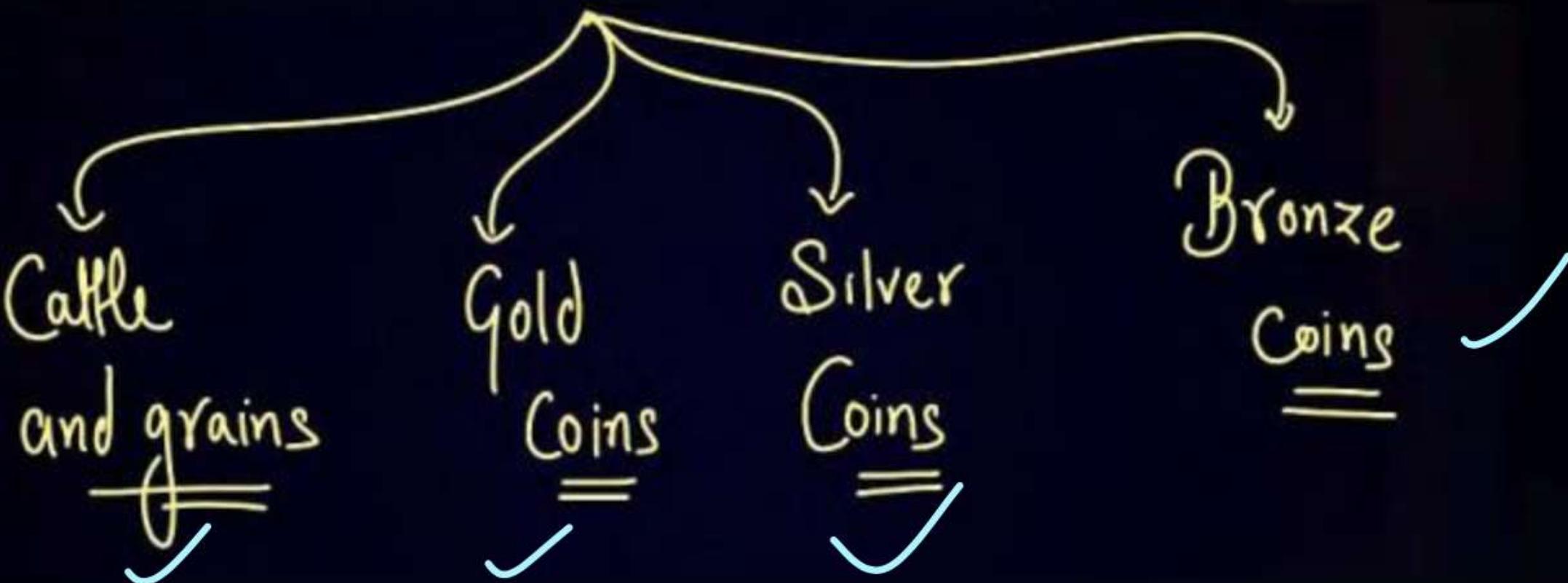
Q _____ is an essential feature of Barter System

- (a) Currency
- (b) Cheque
- (c) Double Coincidence of Wants
- (d) All of the above



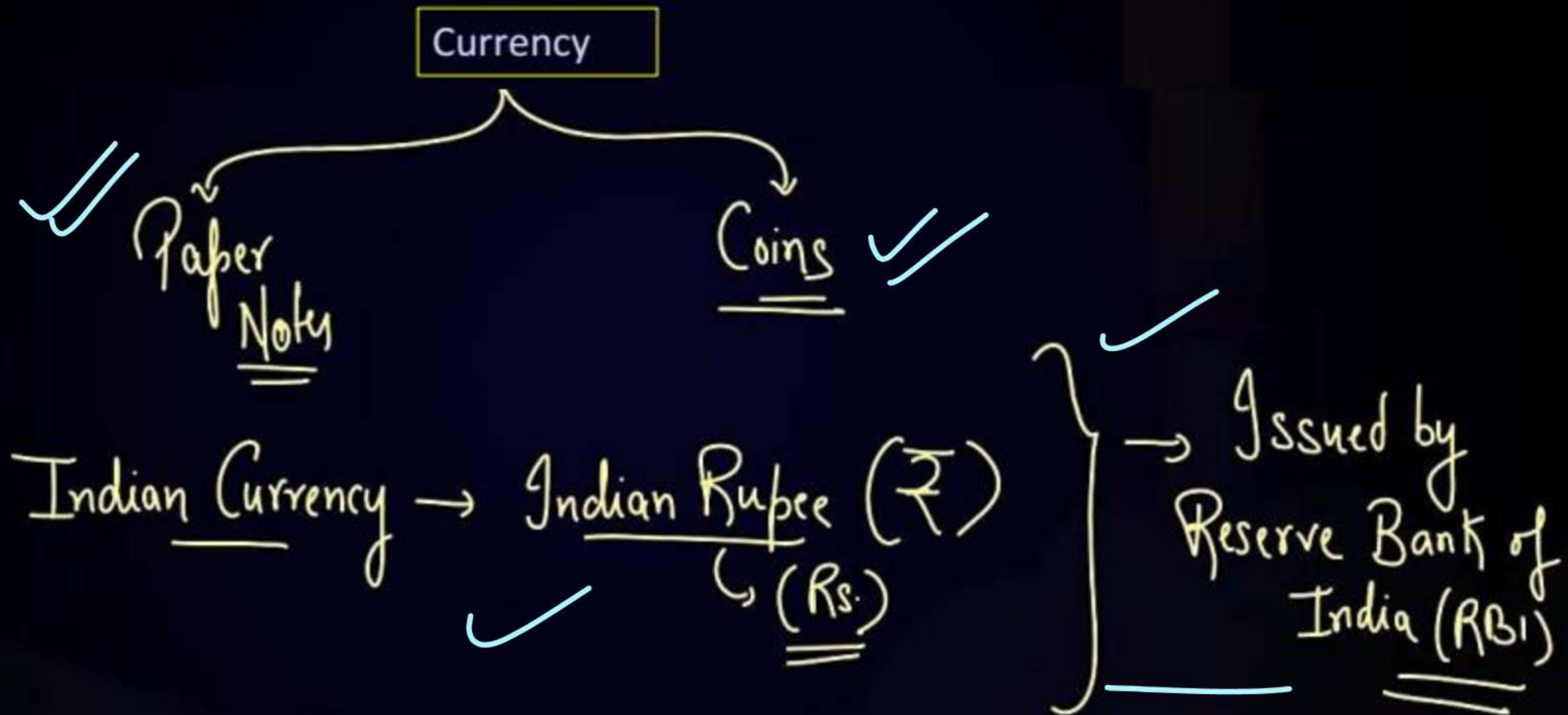
Forms of Money

What were the old forms of money ?





Modern Forms of Money



Q. Currency in India is issued by —

(a) RBI

(b) RBL

(c) HDFC

(d) SBI

Ques 3marks

Q. Why is modern money (currency) accepted as a medium of exchange?

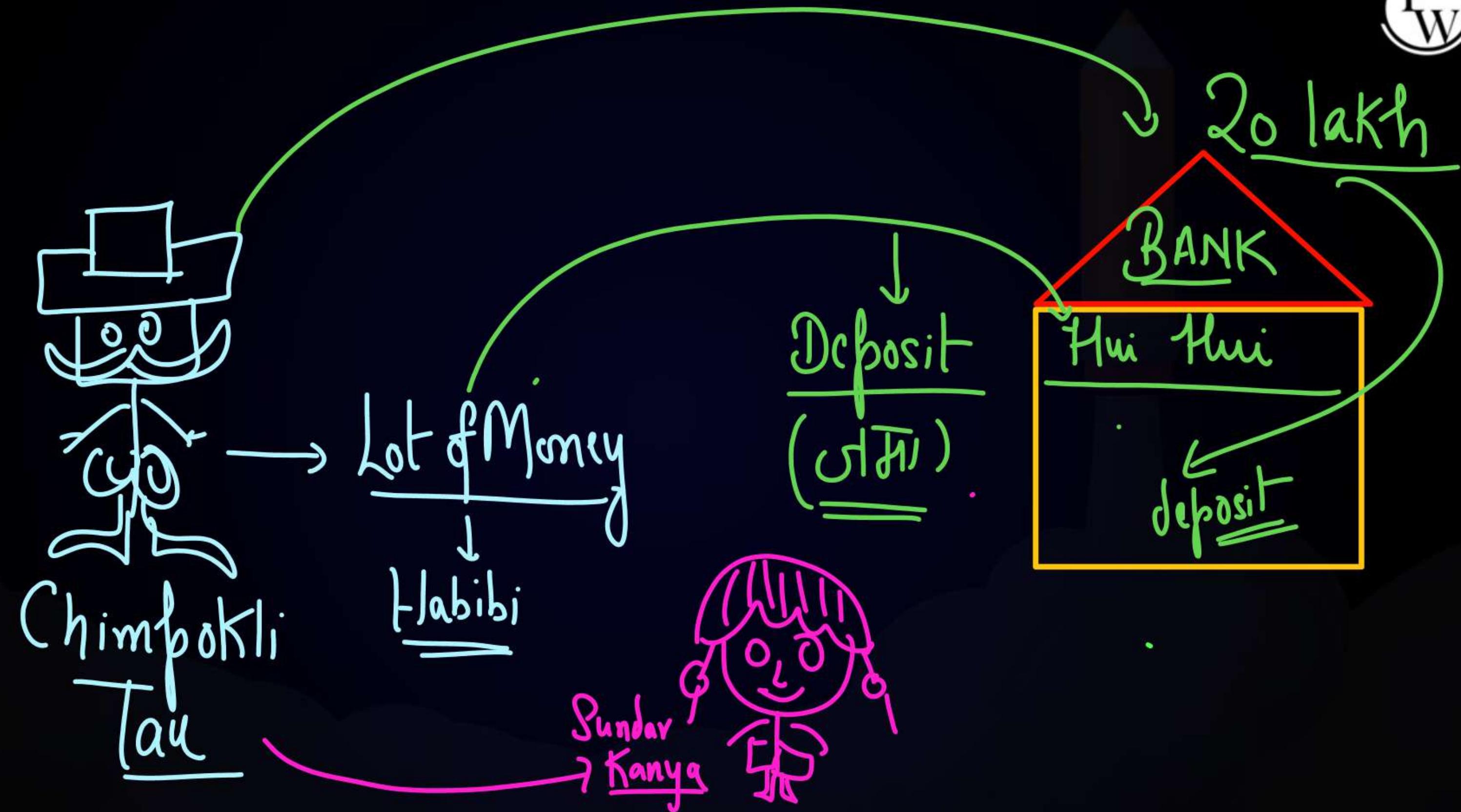


Modern Forms of Money



Why is money (modern currency) accepted as medium of exchange?

- (a) It is a legal tendered currency (authorised by the central govt.)
- (b) RBI issues currency in India on behalf of central govt.
- (c) No individual or company can refuse to accept transactions made in Indian rupee
- (d) Rupee is accepted throughout the country





Modern Forms of Money



Deposits With Banks

- (a) People often deposit money with the banks by opening an account.
- (b) This money remains safe with the bank.
- (c) Banks also pay interest to the depositors for keeping their money in the bank.
- (d) People can withdraw this on demand from the banks. So, they are also called demand deposits.

Ques. Mr. Swamy deposited Rs x with a bank ABC. Suppose there is a marriage in his house. Then he can _____

- (a) Withdraw zero amount from the bank
- (b) Withdraw the required amount from the bank on demand.
- (c) Banks do not allow withdrawal
- (d) None



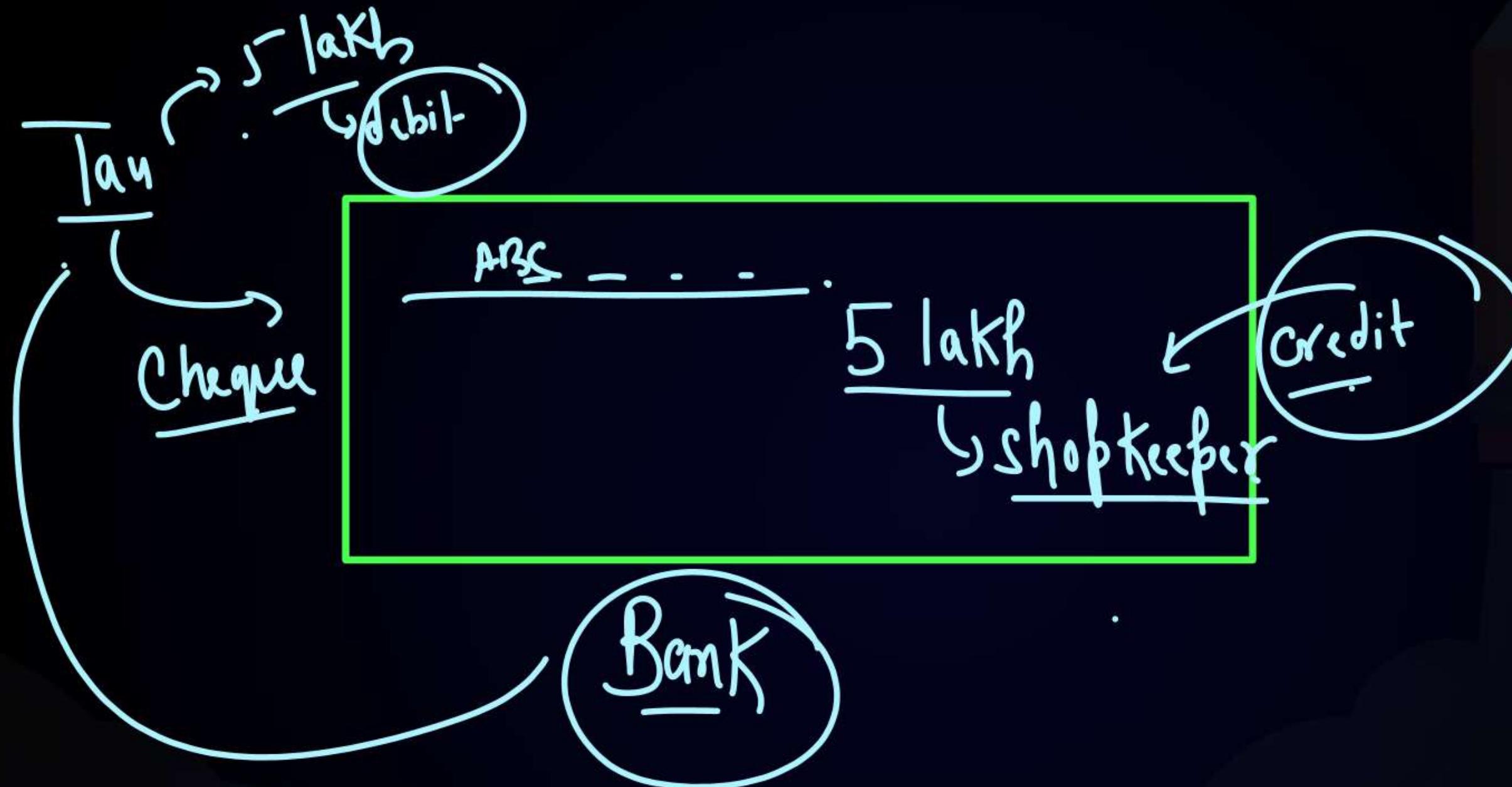
Demand Deposits



They offer an interesting facility
↓
Withdrawing the money through cheque

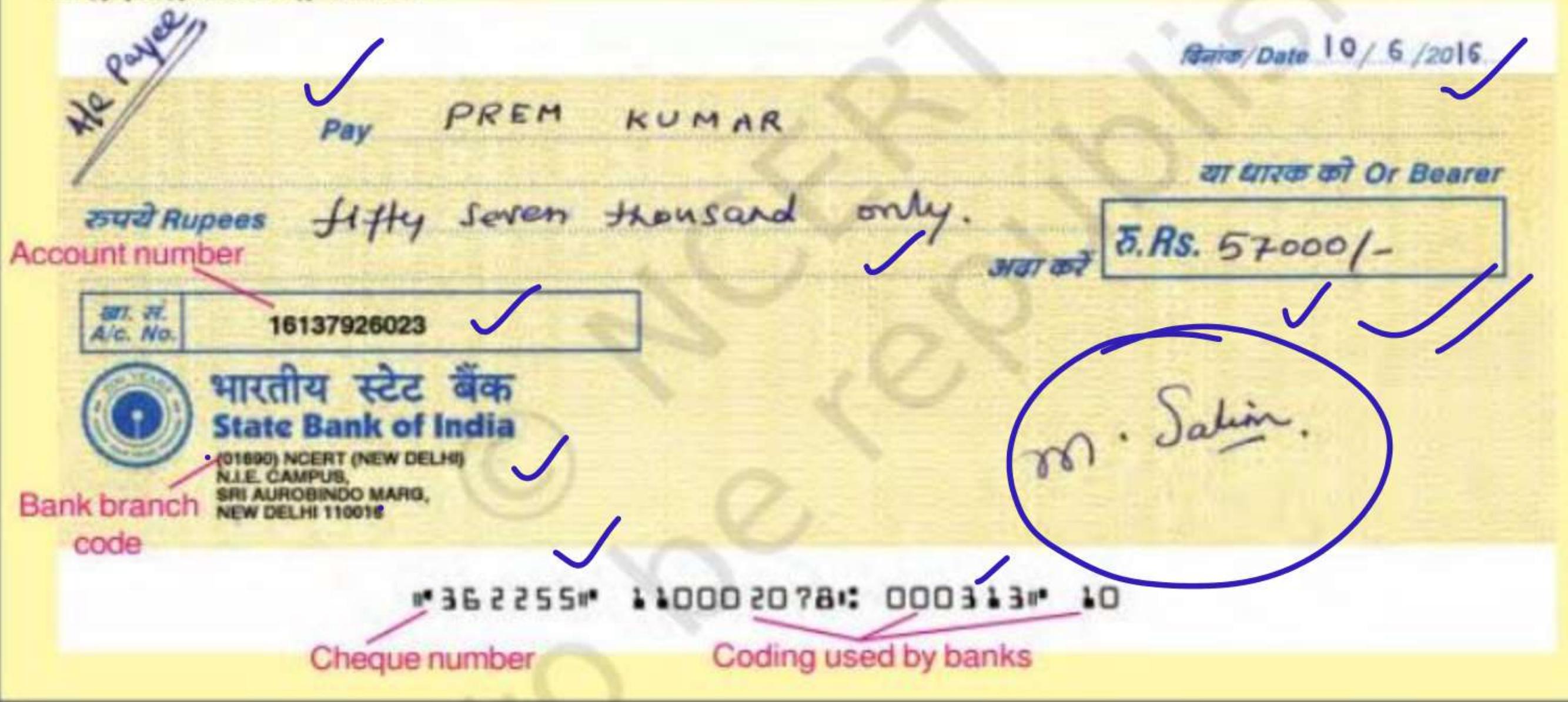


↳ What is a cheque?
A cheque is a paper instructing the bank to transfer a certain amount from the account of one person to the account of the person in whose name the cheque is issued.



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.



P
W



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Ques. In the given cheque, how will the accounts of Deepak and Prateek be affected?

- (a) Account of Prateek will be debited, Deepak's will be credited
- (b) No impact
- (c) Both the accounts will be debited
- (d) Prateek's account will be credited, Deepak's will be debited

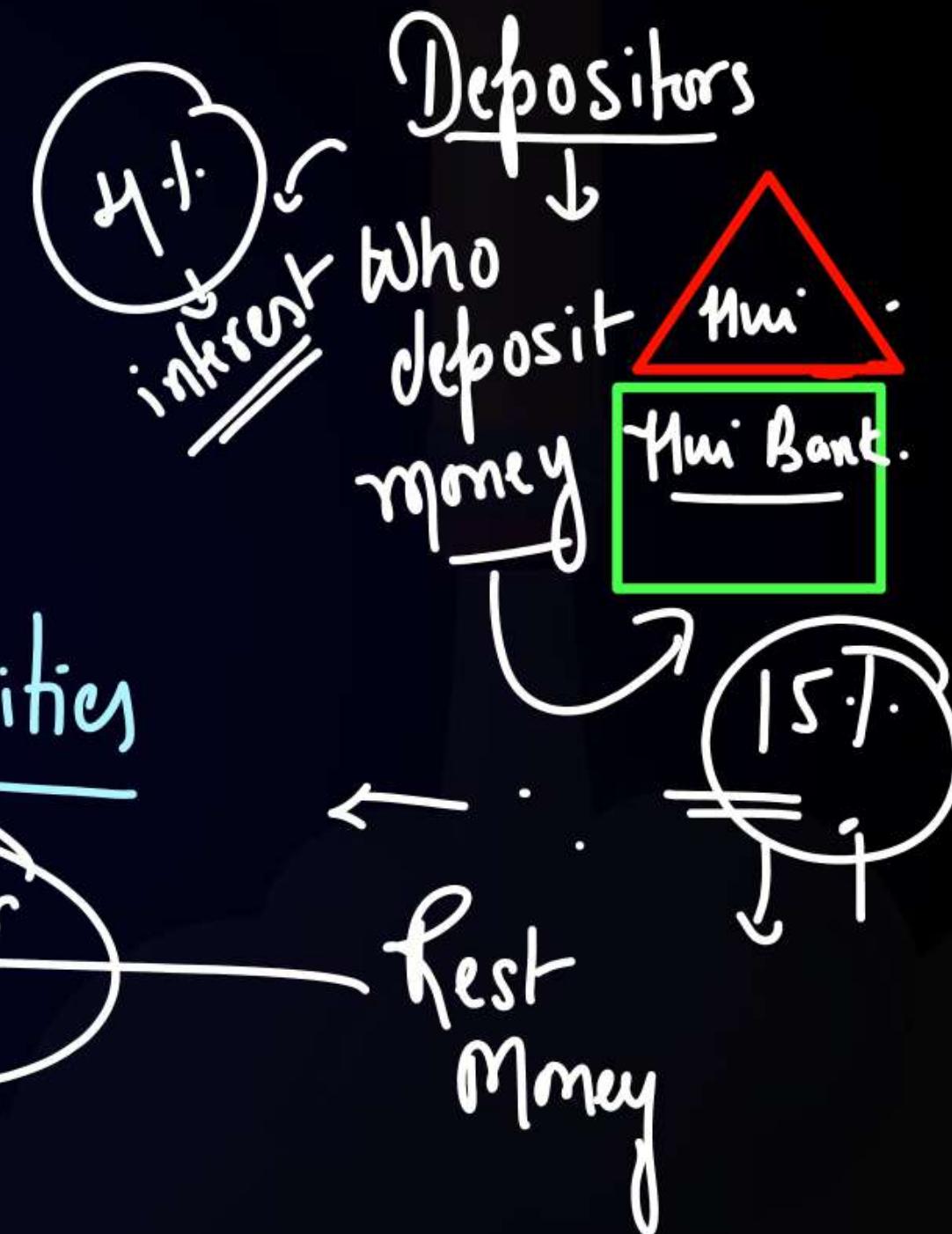


Bank

Loan Activities

Loans

Bank



Q.

Explain the loan activities of the bank? (3)



Loan Activities of The Bank

(a)

Banks

Keep only
small amount
of total deposits
as Cash

(To meet the demands
of depositors)

(b)

India

Banks currently
hold 15%
of the deposits
as cash

=

Rest of the

money is
used by banks
to give loans

✓

Q. Banks in India hold _____ of the total deposit as cash.

- (a) 25%.
- (b) 10%.
- (c) 15%.
- (d) 18%.



(a) Banks gives loans to people at certain rate
of interest



Loan
Activities of
Bank

✓
(b) Banks usually charge
high rates of
interest in loans



✓
(c) Banks act as an intermediate
between those who have Surplus (depositor)
and those who want loans
(borrowers)

Loan Activities - Bank

The difference between interest paid to depositors and interest charged from borrowers is the earning of the bank.

$$\text{Bank's Earning} = \frac{\text{Interest charged (Borrowers)}}{\text{Interest Paid (Depositors)}}$$

$$\begin{aligned} &= 17\text{ J.} - 3\text{ J.} \\ &= \boxed{14\text{ J.}} \rightarrow \underline{\text{Bank Earning}} \end{aligned}$$

Ques.

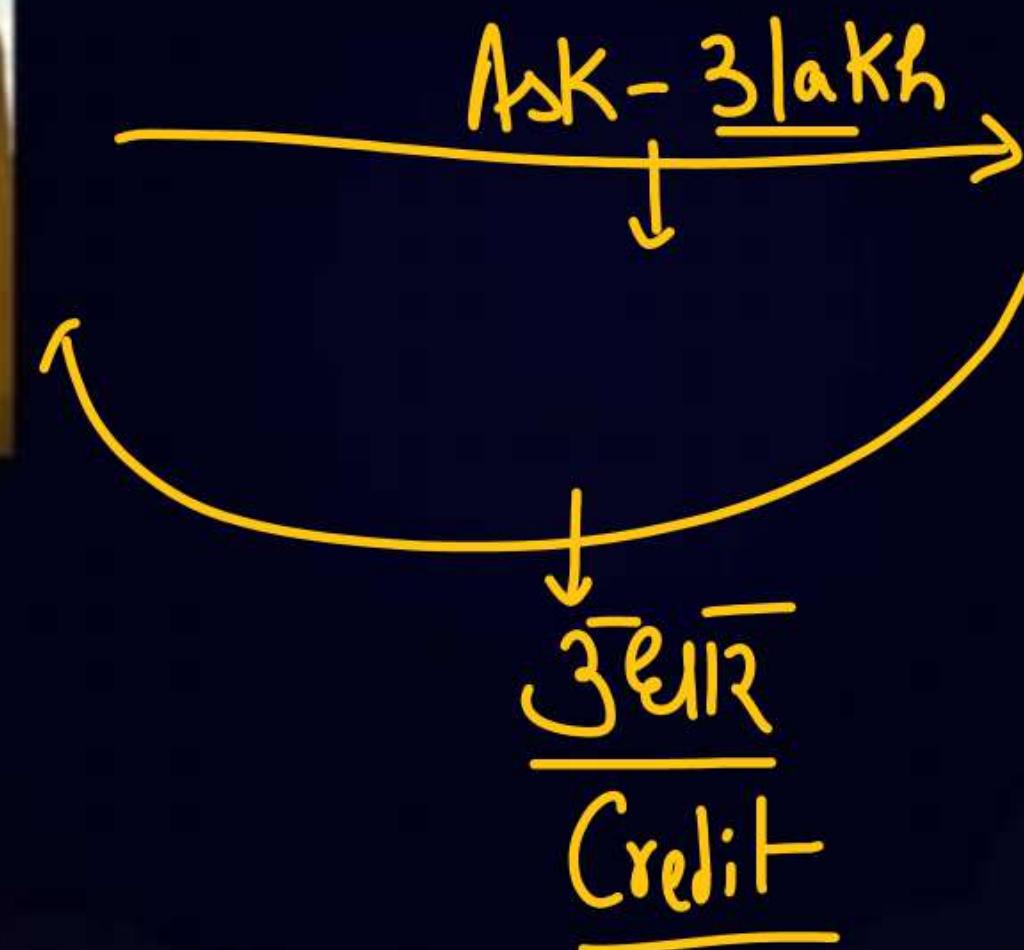
A person ABC deposited a certain amount with a bank for which he gets 4% interest. Bank lends a loan to a person PQR at 20% interest. Calculate bank's earnings in this case

- (a) 14%.
- (b) 20%.
- (c) 16%.
- (d) 18%.

$$\begin{aligned}B &\rightarrow 20\% \\D &\rightarrow 4\%. \\ \text{Diff. } B - D \\ &= 20 - 4 = \underline{\underline{16\%}}\end{aligned}$$



Vimdhayak
≠



Dogesh Seth



Credit



→ lmark

Credit is an agreement between a borrower and a lender
in which the lender gives money, goods or services in
return for the promise of future payment.

(1) Festival Season //

It is festival season two months from now and the shoe manufacturer, Salim, has received an order from a large trader in town for 3,000 pairs of shoes to be delivered in a month time. To complete production on time, Salim has to hire a few more workers for stitching and pasting work. He has to purchase the raw materials. To meet these expenses, Salim 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 trader 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 that he had borrowed.

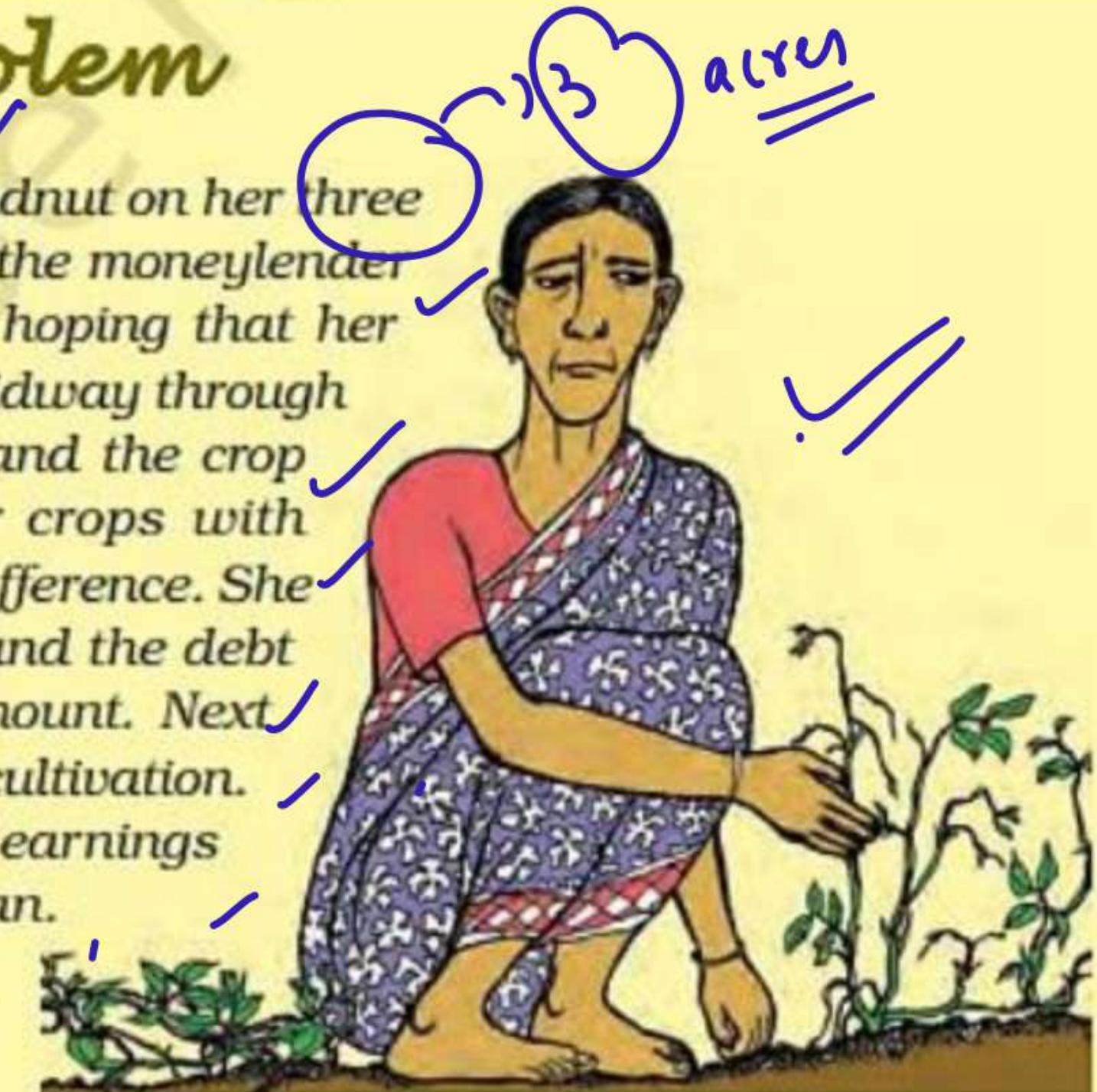


Conclusions

- Salim received order for 3000 pair of shoes to be made in 1 month
- Salim Requirement: Raw Material and Workers (stitching and fastening)
- Salim → Took leather on credit ✓
 - Took advance payment for 1000 pairs ✓
- Outcome: Salim Completed the order and made good profit. ✓
 - Also repaid the credit.
 - ↳ Credit played a positive role

(2) Swapna's Problem

Swapna, a small farmer, grows groundnut on her three acres of land. She takes a loan from the moneylender to meet the expenses of cultivation, hoping that her harvest would help repay the loan. Midway through the season the crop is hit by pests and the crop fails. Though Swapna sprays her crops with expensive pesticides, it makes little difference. She is unable to repay the moneylender and the debt grows over the year into a large amount. Next year, Swapna takes a fresh loan for cultivation. It is a normal crop this year. But the earnings are not enough to cover the old loan. She is caught in debt. She has to sell a part of the land to pay off the debt.



Conclusions

- Swafna → small farmer → grows groundnut on 3 acres of land.
- Took loan from moneylender (at the beginning of season)
- Crops failed (due to pest) → Swafna could not repay back the loan
- Swafna went into debt (ऋष्ट)
- Swafna took fresh loan → But due to normal → Not enough money
- Outcome: Swafna had to sell a part of land to repay the loan
 - * → [* Credit played a negative role]

Q. In case of Swapna , credit played a negative role as Swapna was pushed into —

- (a) profit
- (b) debt trap
- (c) Both a & b
- (d) None



Credit Demand In Rural Areas



(dīkṣā)

Demand
for credit
in rural

areas is for
[crop production]

Crop production
requires

Seeds

Fertilisers

Insecticides

and Pesticides

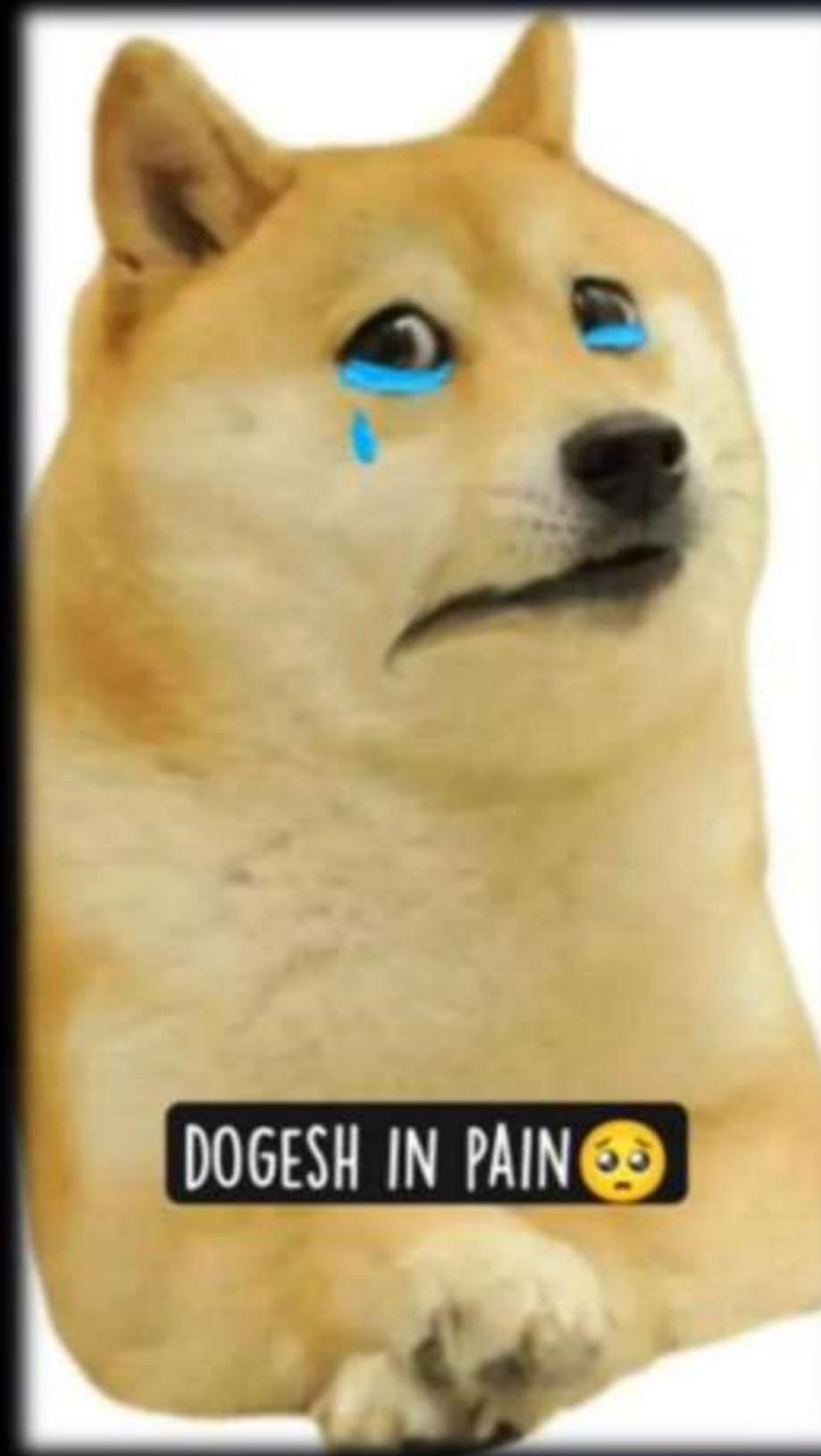
Electricity

Repair of
Equipment

Farmers take the loan at the
beginning of the season
and repay back after
the harvest

Que
PYQ. Credit demand in rural areas is for —

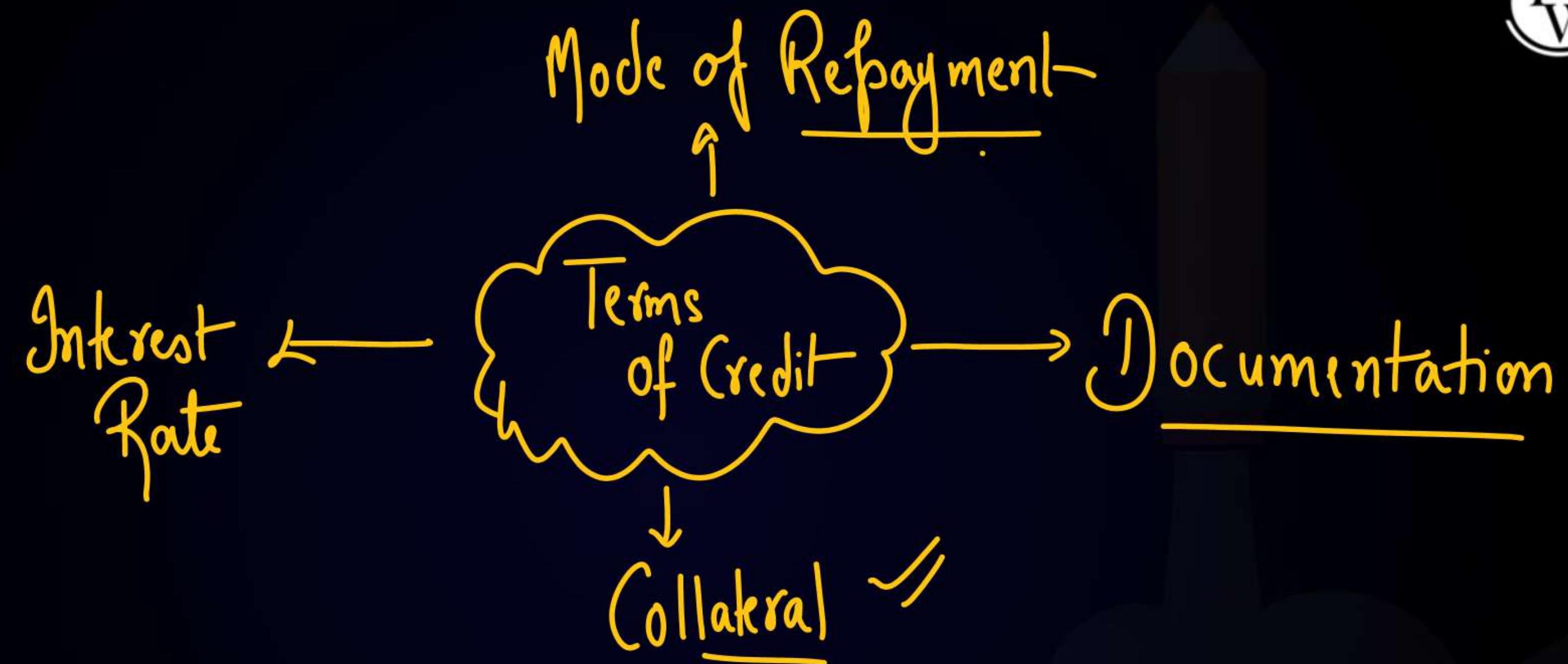
- (a) Investing in shares
- (b) Buying clothes
- (c) Crop production
- (d) All of the above



Debt Trap

A situation where one finds difficult to come out of debt.

(जहाँ पे रुक डैसान कीज़ सेलाई नहीं आ पाता।)





Terms Of Credit

1/2 Marks

2 marks

These are
the terms
on which
a lender gives
money, goods or
services
on credit

Interest
Rate

If includes
Collateral

Documentation

Mode of
Repayment

P
W



Collateral

It is an asset that a borrower gives to the lender as a security in return for a loan.

It can be house papers, car papers, deposits with bank, gold, jewellery.

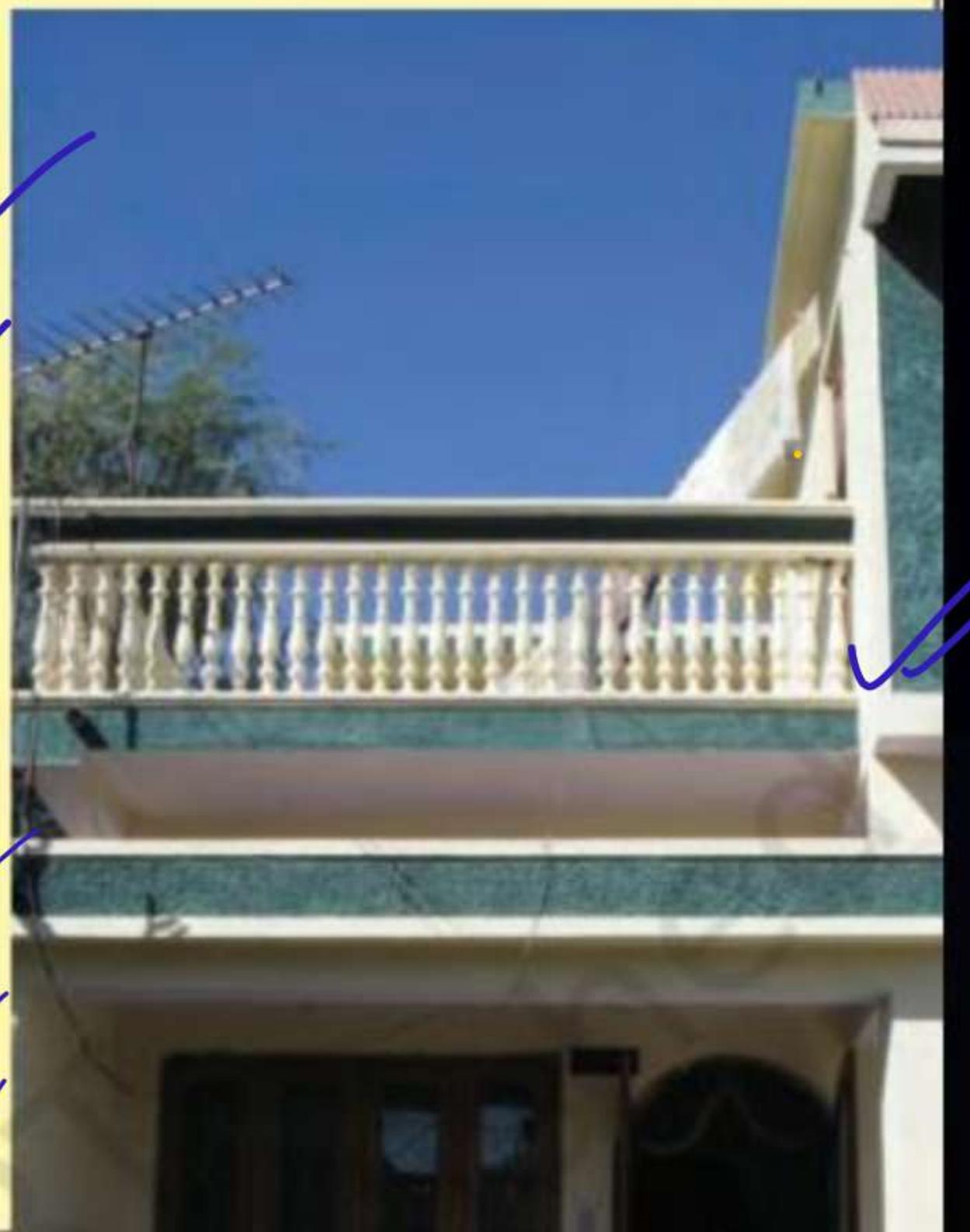
The lender can sell the collateral and recover the money if the borrower fails to repay back the loan.

A House Loan

Megha has taken a loan of Rs 5 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in 10 years in monthly instalments.
Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest.

Fill the following details of Megha's housing loan.

Loan amount (in Rupees)	5 lakh
Duration of loan	10 yrs.
Documents required	Salary proof, Emp. Proof
Interest rate	12.1 p.a.
Mode of repayment	EMI → Monthly Inst.
Collateral	House Papers





NCERT CASE STUDIES

CREDIT ARRANGEMENTS

Variety of Credit Arrangements

✓ ✓ ✓ Example of a Village

Rohit and Ranjan had finished reading about the terms of credit in class. They were eager to know the various credit arrangements that existed in their area: who were the people who provided credit? Who were the borrowers? What were the terms of credit? They decided to talk to some people in their village. Read what they record...

✓ ✓

15th Nov, 2019.

We head directly for the fields where most farmers and labourers would be working at this time of the day. The fields are planted with potato crops. We first meet Shyamal, a small farmer in Sonpur, a small irrigated village.

We next meet Arun who is supervising the



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.

- Shyamal → Small farmer in Sonpur
- Requires loan for his 1.5 acres land
- Few years back : Took loan from village moneylender at (60% p.a.)
- From last few years : Taking loan from agricultural trader at (36% p.a.)
- Season Beginning : Agricultural Trader gives farm inputs on credit → To be repaid at harvest
- Apart from the interest → Trader asks the farmer to sell the crop only to him
- Trader profit
 - Able to recover the money
 - purchases crops at low price, sells at high price.

Q. The source of credit in case of Shyamal is —

- (a) Formal
- (b) Informal
- (c) Both
- (d) None

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 percent 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.

- Arun → 7 acres of land
- Taken loan from Bank at 8.5%
(p.a) to be repaid in three years
- Arun's plan : To repay the loan by selling a part of crop and store rest of the potatoes in a cold storage.
- Arun → Gets a receipt from cold Storage using which he can apply for a fresh loan.

Q. The type of loan that Arun received from the bank

(a) Business Loan

(b) Personal Loan

(c) Home Loan

All Crop Loan

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.

Rama → Agricultural labourer.

For Several months in a year has no work and needs credit for managing daily expenses.

→ Rama depends for credit on her employer

who is a medium landowner → charges interest rate of 5.1 p.m → (60.1 p.a)

→ Rama repays it by working for landowner. Most of time → needs to take a fresh loan [Even when the previous is unpaid]

→ Rama is not treated well, still she works for the landowner as he is the only source of credit.

Q. As per the given case studies, pick out the correct statements?

- (a) Formal sources do not follow rules <
- (b) Rate of interest is low in informal sources <
- (c) Informal sources are major credit source in rural areas
- (d) All of the above

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.



Loan From Cooperatives

Cooperative

Group of people
with similar
interest.

Members of the group
contribute resources. These
are then used for the
benefit of members.

Krishak Cooperative

2300 members

Accepts deposits
from members
(certain amount
of money)

These deposits
are used
as collateral

Once the
loan is
repaid,
they apply
for a fresh
loan

Ques

Krishak Cooperative has _____ members

- (a) 2300
- (b) 2450
- (c) 2600
- (d) 2800



Formal and Informal Sector Credit



Formal Sources

Loans taken from banks,
Cooperatives etc.

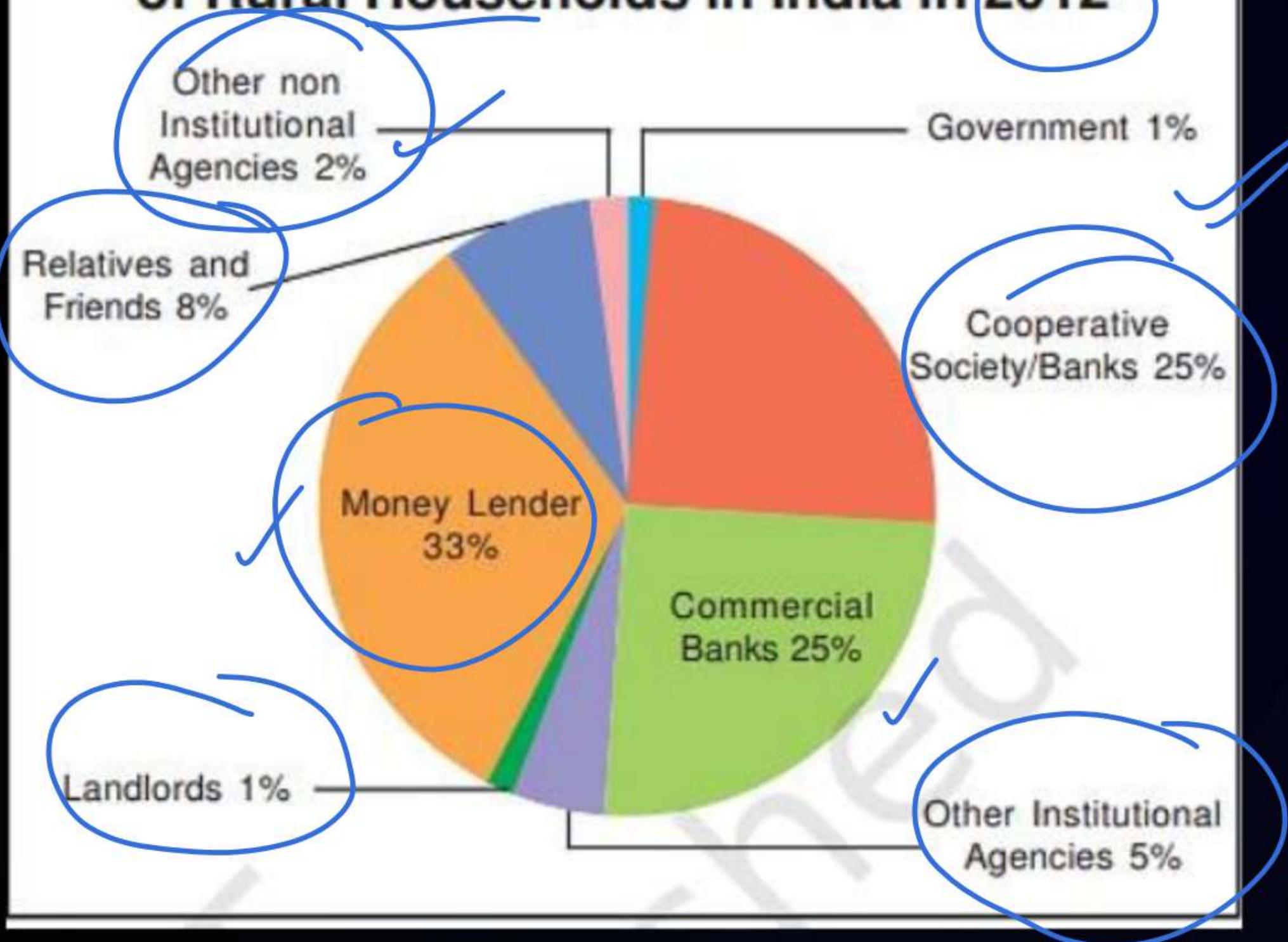
Rules & Req. Interest
 Rate \rightarrow Low
 =

Informal Sources

Loan is taken from
friends, relatives,
moneylenders,
agricultural traders etc.
=

No Rules &
Req. \Rightarrow High interest
Rate

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



PYQ

Quer

Discuss briefly the functioning of RBI ?

(3)

=====



Functioning of RBI



→ 3

- (a) RBI is the central bank of India ✓
- (b) It supervises the functioning of all the banks in India. —✓
- (c) RBI monitors that banks maintain a minimum cash balance ✓
- (d) Banks have to submit report to RBI time to time ✓
- (e) RBI sees that loans are given to all the people and not only the rich or businessmen ✓

Ques

"There are underlying problems that exist in informal
Sector" (5 marks)
↓
Discuss



Problems in Informal Sources

Due to high cost of loan → amount to be repaid is higher than the amount taken. Also it is higher than the income of the borrower. This may push the borrower into debt trap.

No rules and regulations

→ No one to supervise informal sector. Lenders charge high rates of interest and use unfair means to recover their money.

Informal
Sources-Problems

(d)

(b)

High Rates of
Interest

(c)

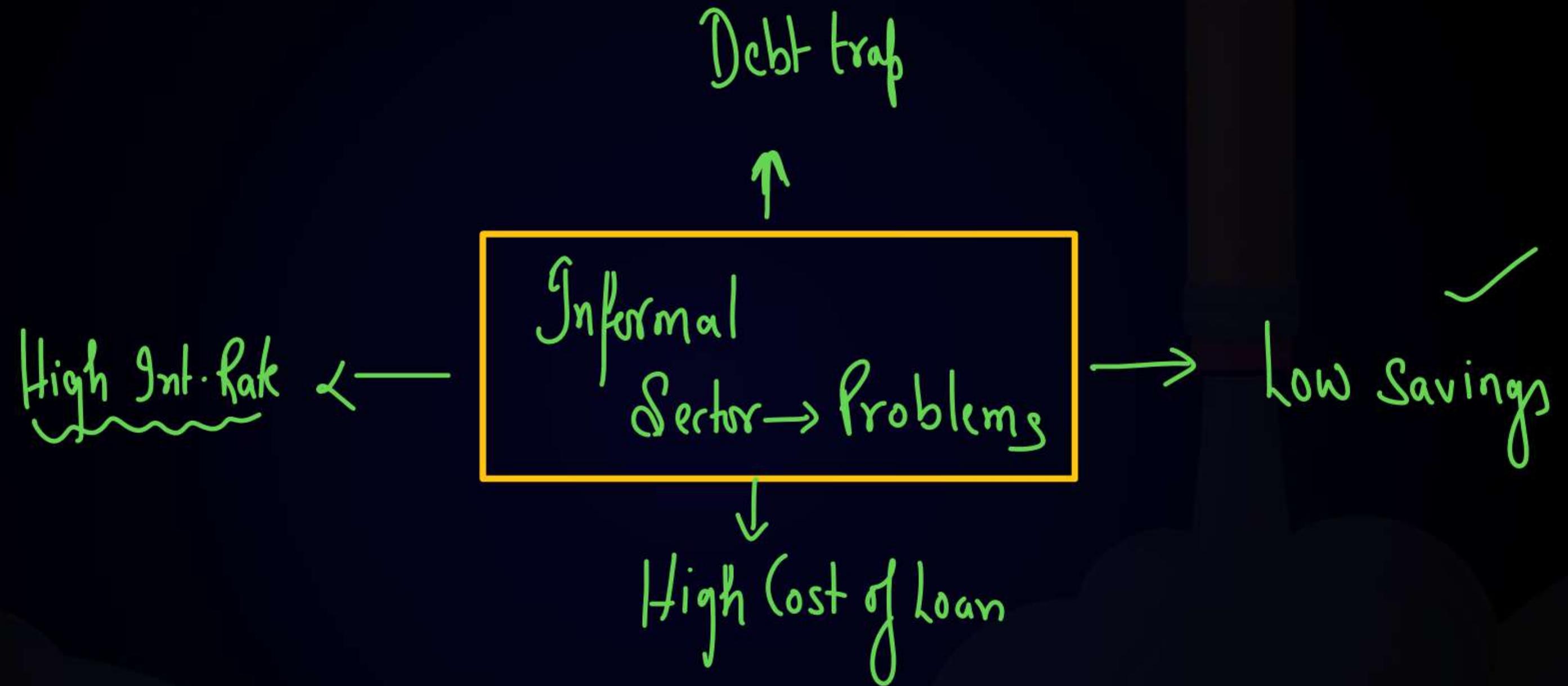
Reduction in Earnings

→ Since the cost of loan is high. Most of the income is used to repay the loan. This reduces the savings of the person.

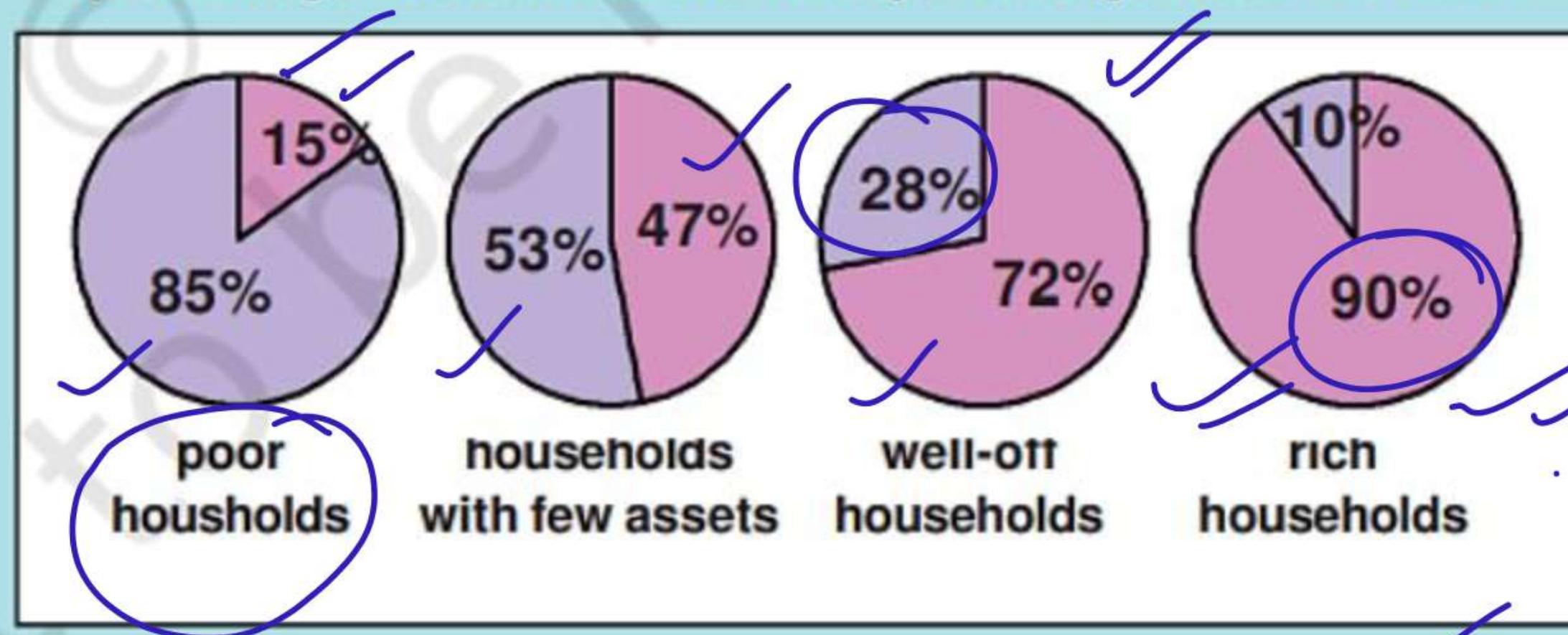
→ Rate of Interest is high which increases the cost of borrowing → So it costs much to borrower.

Q. Which of the following issues exist in informal sector?

- (a) High cost of loan → Due to high interest rate
- (b) Low Savings for the borrower
- (c) Situation of Debt trap
- (d) All of the above



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

Ques

Why there is a need to expand formal Sources of credit?

(Q.Y.O)

(3)



Expansion of Formal Sources



- (a) Rate of interest
is very high in
informal sources.
- If Banks and Cooperatives
will lend more, it will
reduce the dependence of
people on informal
Sources.
- (b) Formal sector
should provide loan
to everyone. At present,
the rich are able to get
the loan but it is difficult
for the poor. It is important
to distribute credit equally.

Ques

Why are informal sources popular in the rural areas?

(3)

Ques :

Informal Sources are popular in rural areas because —

- (a) They are fair &
- (b) They are the only source of credit
- (c) They are more approachable when compared to banks
- (d) Both a & b



Why Are Informal Loans More Popular In Rural Areas ?

(a) In most rural areas, banks are not present.

Even if they are present, they need documents and collateral to give a loan.

(b) Lack of Collateral is a major reason why people in rural areas are not able to get loan from a bank.

(c) It is easy for the people to approach the money lenders who know them personally.

(d) People can ask
for a fresh loan
from moneylenders
even before the previous
loan is repaid

(e) Moneylenders
charge high rates
of interest and use unfair
means (जटे तरीके)
to recover back their money

Self help group



Ques
by Q

Q. Analyse the role of Self Help Groups in promoting
the growth of women. (5)



Self Help Groups



✓ Major objective is to organise poor people especially women into a group.

This is done to create opportunities for self-employment

A SHG has usually (15-20) members

✓ Members collect their savings and pool them together

SHG

If the group ✓
is regular in
Savings, Banks
also agree to give
the loans.

Savings
of the group ✓
Can be used
as collateral

Loan Amount

↓
Used to help
the members
of the group
to start small
business

Loan is repaid
by the group.
Members ensure
that loan is
repaid timely.

SHG

It is also
the platform for women
to discuss the
issues like health, domestic
violence, family.

Members
can take
loan from SHGs
at low interest
rates.

Decisions regarding
the loan is
taken by the
members
(Interest Rate,
Duration, Mode
of Repayment)

Ques · Miss Y went to take a loan from the bank but the loan was rejected. A SHG applied for the loan and it got approved? What probably Miss Y did not have?

- ~~(a) Collateral~~
~~(b) Cash~~
~~(c) Rate of Interest~~
(d) Both b & c

Grameen Bank of Bangladesh

Grameen Bank of Bangladesh is one of the biggest success stories in reaching the poor to meet their credit needs at reasonable rates. 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. These borrowers have proved that not only are poor women reliable borrowers, but that they can start and run a variety of small income-generating activities successfully.

“If credit can be made available to the poor people on terms and conditions that are appropriate and reasonable these millions of small people with their millions of small pursuits can add up to create the biggest development wonder.”

Professor Muhammad Yunus,
the founder of Grameen Bank,
and recipient of 2006 Nobel Prize for Peace

Imp. Questions.

1. In situations with high risks, credit might create further problems for the borrower.**Explain.**

(P.Y.Q)

Answer:

- a) In situations with high risks, credit might create further problems for the borrower.
- b) Credit involves a certain amount of loan that is taken by a borrower from a lender at a high-interest rate.
- c) In case there is a failure, and the borrower faces loss, then they further fall into the trap of credit. This is known as a debt trap.
- d) The borrower has to repay the credit along with interest applied by the lender, and they further fall into the trap of credit, increasing the problems for the borrower. The borrower also has to sell a part of their land to repay the loan.

2. How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Answer:

- a) 'Double coincidence of wants' is when whatever a person desires to sell is exactly what the other wishes to buy. In a barter system, where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature.
- b) Money solved the problem of double coincidence of wants because, after the introduction of money, people could use money as an intermediate to buy or sell things, and no specific buyer or seller was required to exchange products.
- c) For example, a trader wishes to sell 10 sacks full of rice and expects to get it in exchange for five sacks of cereal. Finding a suitable buyer to sell the sacks of rice in exchange for cereals would be very tough.
- d) However, the money will solve this problem, and the trader can sell the sacks of rice to someone who needs it and, in return, buy cereals from the money they get from the buyer of rice.

3. How do banks mediate between those who have surplus money and those who need money?

(10)

Answer:

- a) Banks mediate between those who have surplus funds (the depositors) and those who are in need of funds (the borrowers) by lending money to people who are in need.
- b) People can open accounts in banks, and banks make use of that money to fulfil the loan requirements of the people.
- c) A higher interest rate is charged for the borrower, and that profit is given to the depositor as interest for offering deposits.



4. Look at a 10 rupee note. What is written on top? Can you explain this statement?

Answer:

a) "Reserve Bank of India" and "Guaranteed by the Central Government" is written on the top of a 10 rupee note.

b) Currency in India is issued by the central bank of the country; in the case of India, the Reserve Bank of India is the central bank of the country.

c) The currency is issued on behalf of the Central Government, and these two are the only authorities which are responsible for issuing currency in India.

Thank You



Keep Fighting Warriors...