



# **ONE SHOT**

## **REVISION SERIES**

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**CLASS 10 / ECONOMICS**

### **MONEY AND CREDIT**

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## Money as a Medium of Exchange

Importance of money. →



Situation before the invention of money. 🧐

↓  
Barter Exchange

↓  
Double coincide of wants was a prerequisite condition for barter exchange.

→ **Challenge**

∴ Money acts as an intermediate in the exchange process.

↓  
**Medium of exchange.**

**Modern forms of Money**

Money ➡ **Medium of exchange in the transaction.**

**Evolution** 🤔 ➡ Currency ➡ **Paper notes and coins (Currency).**

Modern currency is without any use of its own. 🤔



*Then why do we accept it?*



Because it is authorized by the government. [RBI]

Rupee ₹ is widely accepted as a medium of exchange. 🤔

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

**Deposits with Banks** ➡ Also a type of money. 🧐

Extra cash

➡ People deposit it with bank (Bank account).



Can be withdrawn on demand ➡

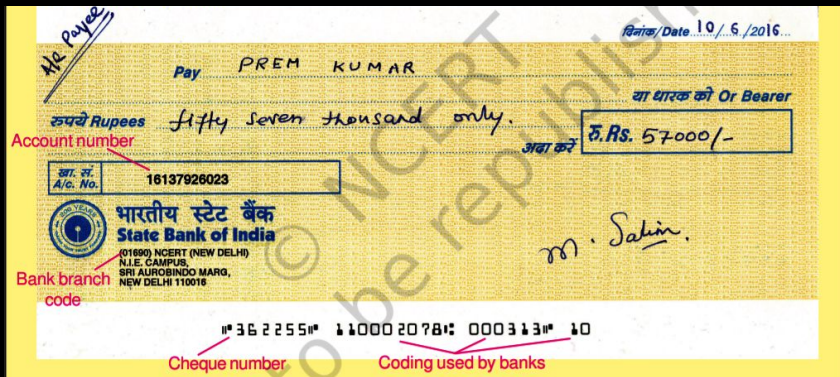
**Demand Deposits**

➡ 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.

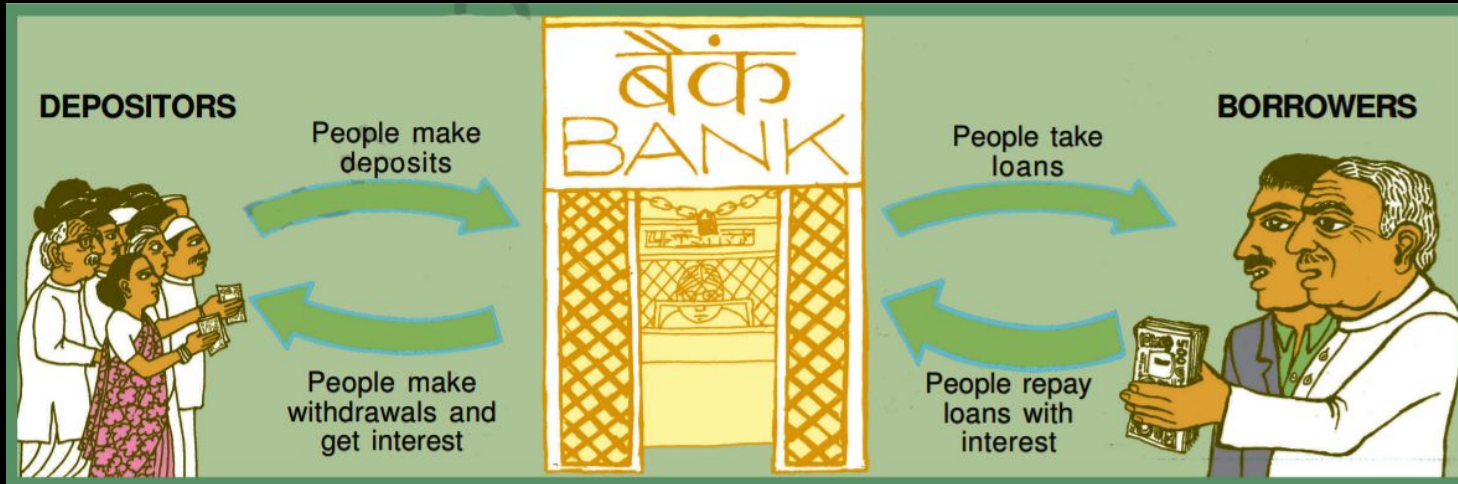


## Loan activities of banks

**Banks Keep a Cash Reserve**

**The major part of the deposit is used to extend the loan.**

**Borrowers take loan**



The difference between what is charged from borrowers and what is paid to depositors is their main **source of income**.

**Two Different Credit Situation**

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

**Festival Season: Story of Salim**

↓

Credit plays a vital and positive role in this situation.

**Swapna's problem**

- ↓
- In this situation, credit pushes the borrower into a situation from which recovery is painful.
  - **Debt-trap**

**Terms of Credit**

**All those terms and conditions which are agreed upon by the borrower and lender.**

**Collateral**

Collateral is an asset that the borrower owns. [land, building, vehicle, livestocks, deposits with banks] and uses this as a guarantee to a lender until the loan is repaid.

**Use of it****Terms of credit**

**DOCOMO internet**



- Documentation required collateral, mode of repayment and interest rate together comprises terms of credit.
- Terms of credit may vary depending on the nature of the lender and the borrower.

**Variety of Credit Arrangement**

**Small Farmers** 🤨 Stories in the Chapter

**Money Lenders**

➡ **Advantages and Disadvantages.**

**Employers**

➡ **Advantages and Disadvantages.**

**Loans from cooperatives**

➡ **Advantages and Disadvantages.**

**Banks**

➡ **Advantages and Disadvantages.**

**Case with large farmers** 🤨



**Formal Sector Credit in India**

**Formal Sector Loans**

**Meaning**

- Banks
- Cooperatives

*Reserve Bank of India supervising the functioning of formal source of loans.*

**Work of RBI**



**Interest rate ↑**

→ **Cost of borrowing ↑**

Large part of the earnings of the borrowers is used to repay the loan. **(Dept Trap)**

**Informal Sector Loans**

**Meaning**

- Moneylenders, traders
- Relatives and friends

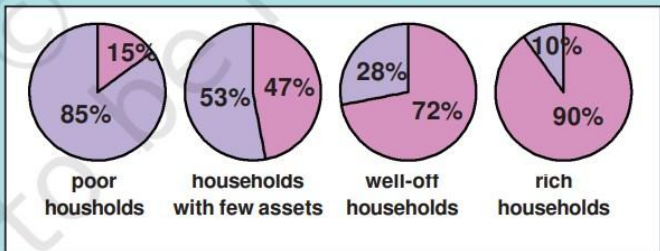
No organization which supervise it

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

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

## Formal and Informal Credit: Who gets What?

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

## Why do poor household borrows from informal sector?



The formal sector still meets only about half of the total credit needs of the rural people.

**Solution**



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

## Analysis

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

**Self-Help Group for the Poor****Meaning**

Emerged as an alternative against the challenges of borrowing from banks. 🤔 **How?**

- **Self Help Groups (SHGs) 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 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.
- Decisions regarding the savings and loan activities are taken by the group members.
- SHGS are the building blocks of organisation of the rural poor. 🤔
  - Grameen Bank of Bangladesh. → Muhammad Yunus.



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