

UPDATED For 2022-23 Boards Exam

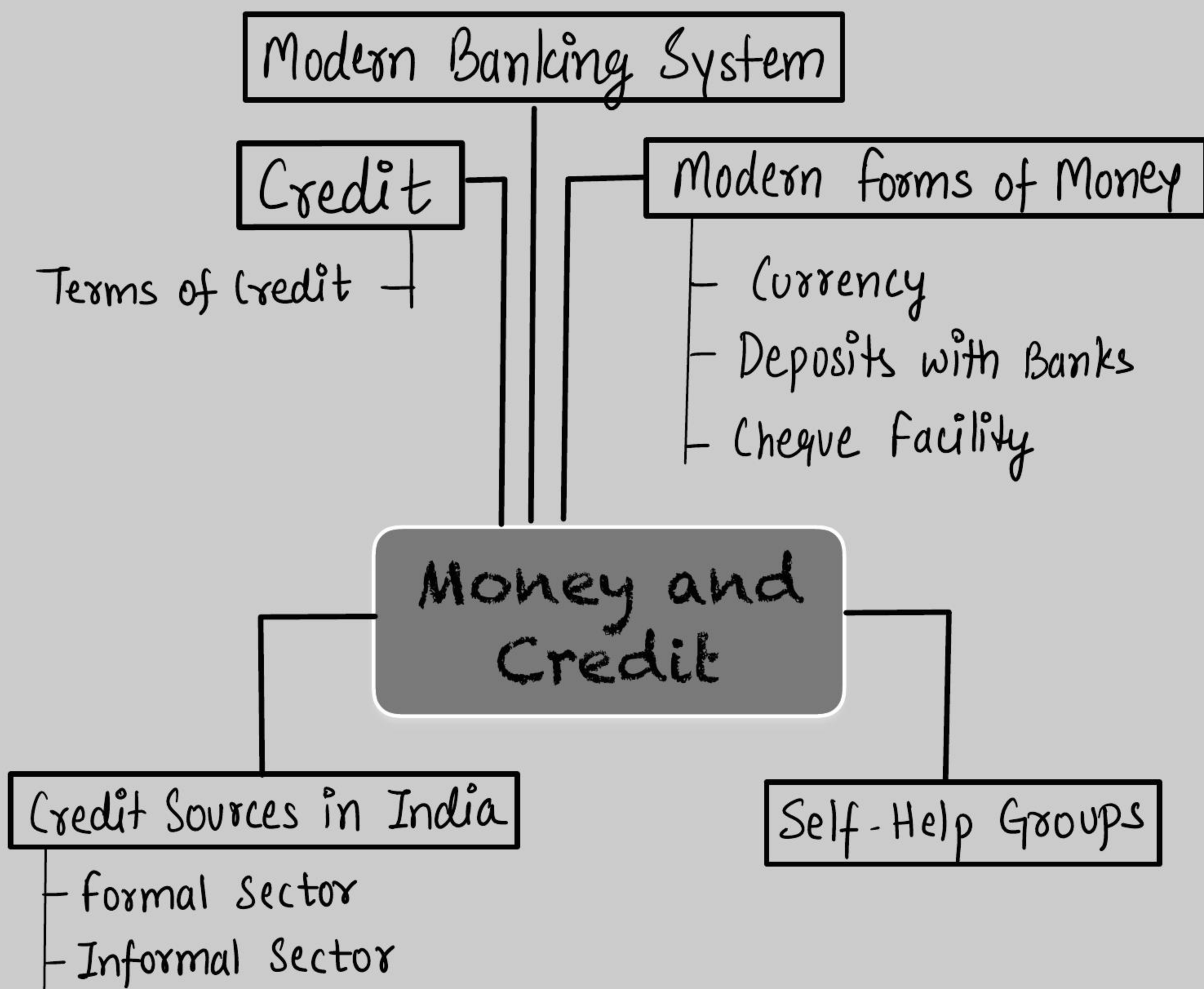
SHOBHIT NIRWAN's

DESIGNED



MONEY AND CREDIT

NOTES



BARTER SYSTEM

A system in which goods are directly exchanged without use of money. Here both parties agree to sell and buy each other's commodity. This is known as double coincidence of wants.

Modern Forms of Money

Money is something that can act as a medium of exchange in transactions.

CURRENCY: [cbse 2019]

- Currency is a generally accepted form of money, including coins and paper notes.
- In India, Reserve Bank of India (RBI) issues currency notes on behalf of the central government.
- The law legalises the use of 'rupee' (₹) as a medium of payment that cannot be refused in settling transactions in India.
- Therefore, the 'rupee' (₹) is widely accepted as a medium of exchange.

DEPOSITS WITH BANKS:

- Banks – other form in which people hold money.
- Money deposited in Banks is safe with the bank and people also get interest on the deposited amount.
- The deposits in the bank accounts can be withdrawn on demand. Hence, these deposits are also called demand deposits.

CHEQUE FACILITY:

A cheque is a paper instructing the bank to pay a specific amount from the person's account the person in whose name the cheque has been issued. Facility of cheque, make it possible to settle payments directly without use of cash.

Modern Banking System

- Banks mediate between those who have extra funds (the depositors) and those who are in need of those fund (the borrowers).
- Bank charge a higher interest rate on loans than what they offer on deposits. This difference between interest is banks main source of income.
- In India only 15% of deposit is kept with the bank itself, the rest is given out as loans.

CREDIT

Credit (loans) refers to an argument in which the lender supplies the borrower with money, goods or service in return for the promise of future payment. Loans are both good and bad, in one situation it can increase a person's earnings in other situation, it may push the person into debt trap.

Debt trap is a situation in which a loan is difficult or impossible to repay, it is mainly caused due to high interest.

Terms of Credit:

- Terms of credit is a set of conditions under which a loan is given. It may include method of payment, rate of interest, duration of credit and other related conditions.
- Collateral (security) is an asset that the borrower owns such as land vehicle etc and uses this as a guarantee to a lender until the loan is repayed.
- If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

In village, there may be different credit arrangement for different categories of borrowers -

- loan from Moneylenders
- loan from Traders
- loan from Banks
- loan from employers
- loan from Cooperatives

Credit Sources in India

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FORMAL SECTOR

- The formal are loans from banks and cooperatives
- The Reserve Bank of India supervises the functioning of formal sources of loans.
- The RBI sees that the banks give loans not just to profit-making business and traders but also to small cultivators, small scale industry, to small borrowers etc.
- Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.

INFORMAL SECTOR

- The informal lenders include money-lenders, traders, employers, relatives, friends etc.
- There is no organisation which supervises the credit activities of lenders in the informal sector.
- They can lend at whatever interest rate they choose.
- There is no one to stop them from unfair means to get their money back.
- The cost to the borrower of informal loans is much higher as no record of the transactions are kept and poor are harassed.

SELF HELP GROUPS [SHGs for poor]

- SHGs have 15-20 members who meet regularly and pool their savings, saving varies from 25 or 100 or more depending on the ability of person.
- After a year or two of regular savings, it becomes eligible for loan from bank. SHGs help borrowers to overcome the problem of lack of collateral.
- Decision regarding loan use is taken by members of the group. Like interest, duration, purpose, amount etc.
- If a member fails to repay other members can pay for his share, because of this feature, banks are willing to lend to SHGs.
- Members can take small loan from group itself. Regular meetings of the group provide platform to discuss and act on a variety of social issues.

IMPORTANT PYQs

cbse 2020
20. Rita has taken a loan of Rs. 7 lakhs from the bank to purchase a car. The annual interest rate on the loan is 14.5 per cent and the loan is to be repaid in 3 years in monthly instalments. The bank retained the papers of the new car as collateral, which will be returned to Rita only when she repays the entire loan with interest. [1]

Analyse the loan information given above, considering one of the following correct option.

- a. Mode of re-payment
- b. Terms of credit
- c. Interest on loan
- d. Deposit criteria

ans-b

cbse 2020
Q Why do we need to expand formal sources of credit in India?

OR

Why Banks and cooperative societies need to lend more? [3]

Ans - We need to expand formal sources of credit in India because:-

- i) There is no organisation which supervises the credit activities of lenders in the informal sector.
- ii) There is no one to stop them from using unfair means to get their money back.
- iii) Formal sources of credit are less risky and they charge less rate of interest.
- iv) The RBI supervises the functioning of formal sources of loans.

OR

Banks and cooperative societies need to lend more:-

- i) This would lead to higher incomes.
- ii) People could borrow cheaply for a variety of needs.
- iii) They could grow crops & set up small-scale industries etc.
- iv) Cheap & affordable credit is crucial for the country's development.
- v) It is also important to save & reduce the dependence on informal sources of credit.

PREVIOUS YEAR QUESTIONS

TERM 2 - CHAPTERWISE

Economics

Chapter-3: Money and Credit

2020

17. Find the Incorrect option:

- A. Demand deposit share the essential features of money
- B. With demand deposit payments can be made without cash
- C. Demand deposits are safe way of money transformation
- D. Demand deposit facility is like cheque

20. Rita has taken a loan of Rs. 7 lakhs from the bank to purchase a car. The annual interest rate on the loan is 14.5 percent and the loan is to be repaid in 3 years in monthly instalments. The bank retained the papers of the new car as collateral, which will be returned to Rita only when she repays the entire loan with interest. Analyse the loan information given above, considering one of the following the correct option. (2020,1M)

- a. Mode of repayment
- b. Terms of credit
- C. Interest on loan
- D. Deposit criteria

27. Why do we need to expand formal sources of credit in India? Explain. (2020,3M)

OR

Why do banks and cooperative societies need to lend more? Explain.

ANSWERS:

17- D

20- B

27- We need to expand formal sources of credit in india because:

- i). There is no organisation which supervises the credit activities of lenders in the informal sector.
- if). There is no one to stop them from using unfair means to get their money back.
- iii). Formal sources of credit are less risky and they charge less rate of interest.
- iv). The RBI supervises the functioning of formal sources of loans.

OR

Banks and cooperative societies need to lend more:

- i. This would lead to higher incomes
- ii. People could borrow cheaply for a variety of needs.
- iii. They could grow crops and set up small-scale industries etc.
- iv. Cheap and affordable credit is crucial for the country's development
- V. It is also important to save and reduce the dependence on informal sources of credit.

2019

1. Explain the meaning of 'Currency'. 1M

OR

Explain the reason for the necessity of supervision by the Reserve Bank of India of formal sources of loans.

14. Explain any three reasons for the banks and cooperative societies to increase their lending facilities in rural areas. 3M

ANSWERS:

1. Any form of money that is approved by the government and used by the public for trading is known as currency. It can be soft money in the form of rupees or hard money in the form of coins. Every country has its own currency. For example, currency of India is Rupees

OR

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

17. The strengths and limitations of local self-government in a democracy are:

STRENGTHS:

- i). The Panchayat Raj system ensures greater participation of people in rural development programs.
- ii). Panchayats function as institutions of self-governance and it settles disputes between villages and individuals and this power has been decentralised by the Government of India to function at the village level.
- iii). Gram Panchayat is responsible for the construction and maintenance of water sources, roads, drainages, and other common property resources.

LIMITATIONS:

- i). There is no proper distribution of power. the question on what basis the work is assigned, who is eligible, and the qualifications required are not answered.
- ii). Insufficient funds this problem hinders the actual purpose of self-government due to limited financial powers.
- iii). These are a few of the limitations of local-self government. Indirect election to the Panchayati Raj allows for corrupt practices.

2018

7. Give any two examples of informal sectors of credit. (3M)

17. Why is cheap and affordable credit important for the country's development ? Explain any three reasons. (3M)

ANSWERS:

7. The two informal sectors of credit are

(i) Moneylenders

(ii) Traders

17. Cheap and affordable credit is crucial for the country's development due to the following factors:

i). More lending would lead to higher incomes and encourage people to invest in agriculture, engage in business and set up small scale industries.

ii). Cheap credit means more income would be left with the borrower to reinvest rather than return as interest. This leads to an acceleration of economic activity.

iii). Cheap credit would also allow weaker sections of society to enter the formal sector of lending and rid them of exploitation at the hands of informal moneylenders. Thus, it may improve the economic condition of the poor and landless.

2017

6. How does the use of money make it easier to exchange things ? Give an example.

7. Give an example of violation of a consumer's right to choose.

17. Explain any three loan activities of banks in India.

ANSWER:

6. Money in our daily life acts as a medium of exchange. A person having money in his hand can exchange money for the services and commodities he wants.

7. Money makes the things easier as

(i) It is in the form of authorised paper currency which gives the guarantee of the mentioned price to the owner.

(ii) It has general acceptability.

(iii) Its price remains constant compared to other commodities.

(iv) It can be stored easily and doesn't need much space.

17. Loan activities of banks in India.

(i) Banks provide loans for various economic activities.

(ii) Banks intermediate between those who have surplus funds and those who are in need of these funds.

(iii) Banks offer very less interest on deposits than what they demand on loans.

2015

8. How does money act as a medium of exchange ?

18. Why is modern currency accepted as a medium of exchange without any use of its own ? Find out the reason.

27. How do banks play an important role in the economy of India ? Explain.

ANSWER:

8. Money acts as a medium of exchange because it acts as an efficient link between the exchange of commodities.

18. The modern currency i.e., rupee, does not have any value of its own because it is not as precious as gold and silver, it is made up of paper.

However it is used for transactions in exchange for some goods and services. But it is still considered as a medium of exchange, as it is authorized by the Government of India.

27. Banks play an important part in India's economy by providing a safe foundation for individuals and businesses to invest or deposit their money, which allows the bank to use the money in its possession for loans. The ability for the public to receive these loans enables them to make purchases, which drives the economy at a higher level. The bank is able to take the deposits, which start out as liabilities, and turn them into assets. This is accomplished by the banks investing the money that is deposited in a way that gains them higher returns than what is being paid to the depositor's account when they receive interest. This allows the banks to loan money and still have the funding to cover any withdrawals that an account holder may make.

2013

7. Which one of the following is the main source of credit for rich urban households?

- a) Moneylenders
- b) Businessmen
- c) Banks
- d) Self-help groups

20. 'Cheap and affordable credit is essential for poor households both in rural and urban areas'. In the light of the above statement, explain the social and economic values attached to it.

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

ANSWERS:

7. C

20. Cheap and affordable credit is essential for Poor households in rural areas because it helps the poor farmers or poor people living there to get loans and then they can invest in either farming or non farm activities. The cheap word tells that the interest rate would be low so at the end they have to pay less money.

Cheap and affordable credit is essential for Poor households in urban areas because it helps the poor people living in urban areas to invest in any manufacturing or any small business which can give them a good return. Due to this good return they can pay back the credit with interest and can have a good and settled life.

28. The two categories of credit sources are 'formal' and 'informal'. The following are four features of formal sources of credit:

- i. The most important in this category are banks and cooperative societies. Loans can be obtained from these.
- ii. The Reserve Bank of India supervises the functioning of these formal sources.
- iii. Bank loans require documentation and collateral. The latter is used as guarantee until the loan is paid back.
- iv. Formal sources are not allowed to charge any rate of interest and have to adhere to governmental norms.

Informal sources of credit:

- i. In the informal field, money can be borrowed from a person, friend, relative, moneylender, trader and employer.
- ii. There is no regulatory or supervisory body in this sector.
- iii. Loans from this sector of credit do not require any collateral.
- iv. Often, a very high percentage of interest is charged as there is no collateral.

2012

13. Banks provide a higher rate of interest on which one of the following accounts?

- (A) Saving account
- (B) Current account
- (C) Fixed deposits for long period
- (D) Fixed deposits for very short period

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

ANSWERS:

34. The Reserve Bank of India (Reserve Bank of India) supervises the functioning of formal sources of loans in India. For instance, banks maintain a minimum cash balance out of the deposits they receive. Functions of Reserve Bank of India The Reserve Bank of India monitors that the banks actually maintain this cash balance. Similarly, the Reserve Bank of India ensures that the banks give loans not just to profit-making businesses and traders, but also to small cultivators, small scale industries, small borrowers, etc. Periodically, banks have to submit information to the Reserve Bank of India on how much they are lending, to whom, at what interest rate, etc.

2011

13. Which one of the following is not a feature of money?

- (A) Medium of exchange
- (B) Lack of divisibility
- (C) A store of value
- (D) A unit of account

34. Explain any four terms of credit with examples.

ANSWER:

34.

1. 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. Interest rate, collateral and documentation requirements and the mode of payment mainly come under the terms of credit.

2. Before banks give credit to people, they have to fulfil all those conditions as mentioned above.

3. A person takes a loan from the village money lender at an interest rate of five per cent per month.

4. Another person takes loan from an agricultural trader in the village at an interest rate of three per cent per month. The trader supplies the farm inputs on credit with the condition that he sells the crop to him. This way the trader can ensure that the money is repaid promptly. Also since the crop prices are low after harvest, the trader is able to make a profit from buying the crop.

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