

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: