Economics

CHAPTER 3

DOUBLE COINCIDENCE OF WANTS

1) When both parties agree to buy and sell each others commodities they need, is called double coincidence of wants. 2) For ex if a shoe maker wants wheat he would search a farmer who would exchange his wheat for shoes. In barter system goods were exchanged without the use of money. 3) In an economy where money is in use, money acts as an intermediate in the process of exchange. 4) A person holding money can easily exchange it for any commodity he/she wants.

***HOW MONEY ACTS AS A MEDIUM OF EXCHANGE?**

Money act as an intermediate in the exchange process. Transaction can be done with the help of money and it is authorised by the govt. of India.

***DEMAND DEPOSITS**

1) People who have extra cash/money can deposit it in bank by opening an account in their name. 2) Bank accept these deposits and also pay an interest on these deposits. 3) In this way people's money is safe and also earns interest. 3) People can also withdraw the money as and when required. 4) Since the deposits can be withdrawn on demand they are called demand deposits. 5) Demand deposits also used as means of payment.

***LOAN ACTIVITIES OF BANK**

1) Banks keep only a small portion of their deposits as cash (about 15percent). 2) This is to pay depositors who may come to withdraw money from bank on any given day. 3) Banks use their deposits to meet loan requirements of the people. 4) In this way banks mediate between those who have surplus money (depositors) and those who are in need of money (borrowers). 5) Banks charge higher interest on loans than what they offer on deposits. 6) This difference is their main source of income.

*** HOW RBI SUPERVISES THE BANK??**

1. Monitors bank in maintaining the cash balance. 2. Observes that banks also give loans to small borrowers, small scale units etc. 3. Banks have to submit information to RBI on the loans that are granted.

***CREDIT AND COLLATERAL**

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

Terms of credit: Interest rate, collateral, documents and mode of payment.

Collateral- It is an asset that the borrower owns and uses this as 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 collateral to obtain his payment.

***DIFFERENCE BETWEEN FORMAL AND INFORMAL SOURCES OF CREDIT**

Formal- 1) Loans from Bank or cooperatives is an example of formal sector loans. 2) Interest rate is low. 3) Reserve Bank of India supervises the functioning of formal sector credit. 4) Terms of credit are simpler. 5) Collateral and documentation is required.

Informal-1) Loans from friends, relatives, money lenders, traders are examples of informal source of credit. 2) Interest rate is high. 3) Collateral and documentation is not required. 3) Terms of credit are not simple. 5) No govt body supervises the functioning of these credit sources.

SHGs- 1) Self Help Group has 15-20 members from neighbourhood who pool their savings regularly. 2) Members can take small loans from the group itself. 3) The rate of interest on the loan is comparatively low as to those of money lenders. 4) If the group is regular in savings, it becomes eligible for taking loan from Banks. 5) It makes the women financially independent and develop the habit of savings. 6) It also provides a platform for women to discuss various issues like health, nutrition and domestic violence.

***ROLE OF CREDIT FOR DEVELOPMENT/CREDIT CAN PLAY POSITIVE OR NEGATIVE ROLE IN ONES LIFE**

POSITIVE ROLE 1) If credit is available at cheaper rate it results in more savings for the borrowers. 2) It can be used to set up small business or self employment opportunities.

NEGATIVE ROLE 1) If credit is taken from informal sources borrower has to spend more on repayment of the loan because interest rate is high. 2) This leads to increasing debt and debt trap. 5) People specially in rural areas take loans from informal sources and sometimes have to sell their land to repay the loan.