

MONEY AND CREDIT

* Answer the following

1. What do you mean by double coincidence of wants? Give an example to money as a exchange

Ans * A person holding money can easily exchange it for any commodity or service that he or she might want

* Thus, everyone prefers to receive payment in money and then exchange the money for things that they want

For example: Take the case of a shoe manufacturer. He wants to sell shoes in the market and buy wheat

* The shoe manufacturer will first exchange shoes that he has produced for money and then exchange the money for wheat

* That is, both the parties have to agree to sell and buy each others commodities

2. What is a cheque?

Ans 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

③ How money acts as a medium of exchange.

Ans:

- * Modern forms of money include currency paper notes and coins.
- * Modern currency is not made of precious metal such as gold, silver and copper.
- * It is accepted as a medium of exchange because the currency is authorised by the government of the country.

④ What are demand deposits.

Ans: Banks accept the deposits and also pay an amount as interest on the deposits.

- * People also have the provision to withdraw the money as and when they require.
- * Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

⑤ What is the role of RBI in supervising the banks.

Ans:

- * The Reserve Bank of India supervises the functioning of formal sources of loans.
- * The RBI monitors the banks in actually maintaining cash balance.
- * The RBI sees that the banks give loans not just to profit making businesses and traders but also to small cultivated small scale industries, to small borrowers etc.

21

* Periodically, Banks have to submit information to the RBI on how much they are lending, to whom, at what interest, etc.

⑤ Define Terms of credit.

Ans: Interest rate, collateral and documents requirement, and the mode of repayment together comprise what is called the terms of credit.

⑦ What is credit?

How credit acts as a positive and negative role? Explain with examples.

Refer Pg. 17.

8. How are demand deposits accepted as a means of payment?

Ans: * Demand deposits share the essential feature of money.

* The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.

* Since, demand deposits are accepted widely as a means of payment, along with currency they constitute money in the modern economy.

9. Analyse the role of credit for development.

Ans: * Credits help in increasing economic activities of the country. Thus, helps in industrial development.

* Credit helps in the development of secondary sector

* Credit is made available to the poor people at reasonable rates and thus improves ^{their} ~~your~~ economic ~~eco~~ condition. It improves their standard of living and overall development.

Q10) What are the reasons that banks might not be willing to lend money to certain borrowers?

Ans: * The banks do not wish to lend loans to poor who have no collateral security. Bank loans require paper documents and collateral security for loans.

* The borrowers who have not paid back loans are considered as ~~loan~~ defaulters.

^{So} the banks are not willing to lend them loans again.

* The banks are not willing to lend money to entrepreneurs who are not going to invest in the business.

Q11) How are cooperatives functioning in the rural areas to solve the problem of credit?

Ans: * Besides banks, the other major source of cheap credit in rural areas are the cooperatives.

* Members of a cooperative pool their resources for cooperation in certain areas.

* Cooperatives form members, who accept

Ans There is no organization which supervises the credit activities of lenders in informal sector.

- * They can lend at whatever interest rate they choose.

- * There is no one to stop them from using unfair means to get their money back.

- * The higher interest rate of borrowing can mean that the amount to be repaid is greater than the income of the borrower.

- * This could lead to increasing debt and eventually a debt trap situation.

- * Also, people who might wish to start a business by borrowing may not do so because of the high cost of borrowing.

For these reasons, banks and cooperative societies need to lend more. This would lead to higher incomes and many people could then borrow at cheap rates for a variety of ^{needs} reasons.

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

Q14 Why are the poor households still dependent on informal sources of credit?

Ans: * Banks are not present everywhere in rural India.

- * Even when they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources.

- * Bank loans require proper documents and

a collateral absence of collateral is the major reasons which prevent the poor from getting bank loans.

* Informal lenders like moneylenders, know the borrower personally and hence, are often willing to give a loan without a collateral.

* The poor households depend on informal sources of loans due to lack of collateral security and delay in sanctioning of loans from the bank.

15

What is collateral security?

Ans It is an asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid.

16

Explain the loan activities of banks?

Ans * Banks use the major portions of the deposits to extend loans. There is a huge demand for loans for various economic activities.

* Banks mediate between those who have surplus funds and those who are in need of these funds.

* Banks charge a higher rate of interest on loans than what they offer on deposits.

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

security

a collateral absence of collateral is the major reasons which prevent the poor from getting bank loans.

* Informal lenders like moneylenders, know the borrower personally and hence, are often willing to give a loan without a collateral.

* The poor households depend on informal sources of loans due to lack of collateral security and delay in sanctioning of loans from the bank.

15

Q. What is collateral security?

Ans It is an asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid.

16

Q. Explain the loan activities of banks?

Ans * Banks use the major portions of the deposits to extend loans. There is a high demand for loans for various economic activities.

* Banks mediate between those who have surplus funds and those who are in need of these funds.

* Banks charge a higher rate of interest on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

17. Distinguish between formal and informal sources of credit.

Formal source

Informal source

- * Formal sources - Banks and Informal source - money lenders, relatives, friends, cooperatives, employers.
- * Fixed rate of interest as Higher rate of interest guided by the RBI as per the ^{wishes} interest of the lender.
- * The rate of interest, terms of credit and collateral security are (trust) documented. No papers are involved only word of mouth.
- * Defaulters are in repaying. Defaulters are put into loans are given sufficient a lot of agony, stress and harassment.
- * RBI supervises the banks. ~~None~~ No one to check the moneylenders.

18.

18. What is the basic idea behind the SHG's for the poor? Explain in your own words.

- Ans
- * The idea is to organise rural poor, in particular women into small self help groups (SHGs) and poor (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 ₹ 25 to ₹ 100 or more depending on their ability of the people to save
- * Members can take small loans from the group itself to meet their needs.
- * After a year or two, if the group is eligible for availing loans from the banks.
- * Loan is sanctioned in the name of the group and is meant to create self employment opportunities for the members.

19. What is the role of banks in the economic development of a country?

Ans * Banks play an important role in the economy of a country. They give interest on the money deposited by the people and this adds on to the income of the family.

* Banks mediate between those who need money.

* Banks provide loans with lower rate of interest to different sections of people in a society.

* Banks boost the industries by providing loans to industrialists and thus the banks are the backbone of the country's trade.

* Banks employ a large number of people and solve the problem of unemployment to a great extent.