

MCQs

1. Since money acts as an intermediate in the exchange process, it is called:

- (a) value for money (b) exchange value
- (c) medium of exchange (d) none of these

2. Modern forms of money include:

- (a) paper notes (b) gold coins
- (c) silver coins (d) copper coins

3. Who issues currency notes on behalf of the Central government in India?

- (a) NABARD (b) Reserve Bank of India (RBI)
- (c) World Bank (d) State Bank of India (SBI)

4. Deposits in bank accounts withdrawn on demand are called:

- (a) fixed deposits (b) recurring deposits
- (c) demand deposits (d) none of these

5. Banks in India these days, hold about _____ per cent of their deposits as cash.

- (a) 50 (b) 20
- (c) 15 (d) 10

6. Major portion of the deposits is used by banks for:

- (a) setting up new branches (b) paying taxes
- (c) paying interest on loans (d) extending loans

7. What is the main source of income for banks?

- (a) Interest on loans
- (b) Interest on deposits
- (c) Difference between the interest charged on borrowers and depositors
- (d) None of these

8. In rural areas, farmers take credit for?

- (a) Family (b) Health
- (c) Crop production (d) Education

9. A 'debt trap' means:

- (a) inability to repay credit amount
- (b) ability to pay credit amount
- (c) overspending till no money is left

(d) none of these

10. What is the 'collateral' demand that lenders make against loans?

(a) Vehicle of the borrower

(b) Building of the borrower

(c) Both (a) and (b)

(d) None of these

11. Terms of credit do not include:

(a) interest rate

(b) collateral

(c) documentation

(d) lender's land

12. Formal sources of credit do not include:

(a) banks

(b) cooperatives

(c) employers

(d) none of these

13. Informal sector loans include:

(a) NABARD

(b) State Bank of India

(c) moneylenders

(d) both (b) and (c)

14. Banks and cooperatives need to lend more to borrowers because:

(a) high cost of borrowing from informal sources

(b) borrowers wish to set up enterprises

(c) borrowers need more money but cannot ask

(d) none of these

15. Poor households in urban areas take loans from _____ sources.

(a) formal

(b) informal

(c) both (a) and (b)

(d) none of these

16. What prevents the poor from getting bank loans?

(a) Complexity of procedure

(b) Absence of collateral

(c) High rates of interest

(d) None of these

17. In a SHG, most of the decisions regarding savings and loan activities are taken by:

(a) bank

(b) group members

(c) non-government organisation

(d) government

18. What is the name of the success story that met the credit needs of the poor, at reasonable rates, in Bangladesh?

(a) Grameen Bank

(b) Reserve Bank

(c) Cooperative Bank

(d) None of these

Answers

1. (c) 2. (a) 3. (b) 4. (c) 5. (c) 6. (d) 7. (c)

8. (c) 9. (a) 10. (c) 11. (d) 12. (c) 13. (c) 14. (a)

15. (b) 16. (b) 17. (b) 18. (a)

XXTTRRAAAA

Ques 1 Identify the condition when both the parties in a barter economy have to agree to sell and buy each others commodities? What is it called?

Lender's of Last Resort

Double Coincidence of Wants

Medium of Exchange

Terms of Credit

Ans: Double Coincidence of Wants

Ques 2 In a SHG most of the decisions regarding savings and loan activities are taken by

Bank

Members

Non-government organisation

Ans: Members.

Ques 3 Formal sources of credit does not include
Banks.

Cooperatives.

Employers.

Ans: Employers

Ques 4 _____ is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

Currency

Collateral

Credit Card

Ans: Collateral

Ques 5 Which of the following methods can reduce the dependence on informal sector?

banks and cooperatives increase their lending particularly in the rural areas,

interest rates are decreased on credit

formal sector loans expands, and everyone receives loans

All the above

Ans: All the above

Ques 6 Which one of the following is not an informal lender?

Moneylenders

Traders

SHGs

Relatives

Ans: SHGs

Ques 7 Which one of the following is NOT a term of credit?

Collateral

Interest rate

Bank Deposits of the borrower

mode of repayment

Ans: Bank Deposits of the borrower

Ques 8 Which one of the following is not a modern form of currency?

Paper Notes

Coins

Barter Exchange

Plastic Money

Ans: Barter Exchange

Things to remember:

- Money is anything which is commonly accepted as a medium of exchange and in discharge of debts.
- People exchange goods and services through the medium of money. Money by itself has no utility. It is only an intermediary. The use of money facilitates exchange.
- Direct exchange of goods against goods without use of money is called barter exchange (i.e. Exchange of goods for goods). This is also known as CC economy (i.e. commodity for commodity economy).
- Simultaneous fulfillment of mutual wants by buyers and sellers is known as double coincidence of wants. Let us understand this concept with the help of an example:
A shoe manufacturer wants to sell his shoe in the market and buy wheat. Now he has to directly exchange shoe for wheat without the use of money. He would have to look for a wheat growing farmer who not only wants to sell wheat but also wants to buy shoes in exchange.
- Before the introduction of coins, a variety of objects were used as money.
For example, since the very early ages, Indians used grains and cattle as money. There after came the use of metallic coins –gold, silver, copper coins. This process was finally taken over by the paper money (which means currency notes). As the value of transactions increased, even paper money started becoming inconvenient because of time involved in its counting and space required for its safe keeping. This led to the introduction of bank money(credit money)in the form of cheque, demand drafts, credit cards etc.
- The major function of the bank is to give loans, particularly to businessmen and entrepreneurs and there by earn interest.
- Banks get money for providing loans by accepting the deposits from

people. Deposits are the lifeline of a bank. There are two types of :time deposits and demand deposits. Time deposits can be withdraw only after a specified period of time. Demand deposits in the bank can be withdraw on demand by issuing cheques.

- The facilities of cheques against demand deposits make it possible to directly settle payments without the use of cash.
- Credit(i.e. giving loans) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payments with interest. Credit place a vital and positive role in the society. This can be explained further with the help of suitable examples. Saleem obtain loans to meet the needs of protection which helps him to meet the need of ongoing expenses of production ,complete production in time and thereby increase his earnings.
- Sometimes, credit, instead of helping people, pushes them into a debt trap. In Swapana's case who is a farmer, the failure of crop made loan repayment impossible. credit in this case pushes the borrower into a situation from which recovery is painful.
- Terms of credit include interest rate, collateral and documentation requirements and the mode of repayment. The terms of credit may vary depending on the lender and the borrower.
- Collateral is an asset that the borrower owns (such as land, vehicles, livestock etc.)and uses this as a guarantee to the lender until the loan is repaid.
- Formal credit is generally available with the banks and cooperatives. They charge lesser rates of interest than informal institutions. The Reserve Bank of India (RBI) supervises the functioning of formal sources of loan.
- The idea behind self-help Groups is to organize the rural poor into self-

help groups and collect their savings. Saving per member varies from Rs25 to Rs100 or more depending on the ability of the people to save. Members can take small loans from the group itself to meet their own needs. The group charges less rate of interest on these loans. If the group is regular in savings, it becomes eligible for availing loan from the bank.

MULTIPLE CHOICE QUESTIONS OF MONEY AND CREDIT

The exchange of goods for goods is:

- (i) banker of option
- (ii) bills of exchange
- (iii) barter
- (iv) currency

2. Currency is issued by:

- (i) RBI on behalf of central government
- (ii) By president of India.
- (iii) By finance minister
- (iv) None of them

3. National Sample Survey Organisation is a:

- (i) Commercial bank organisation
- (ii) An organisation of World Bank
- (iii) An organisation associated with Indian Standard Institute
- (iv) An institution responsible to collect data on formal sector credit.

4. Gold mohar, a coin so named was brought in circulation by:

- (i) Akbar
- (ii) Sher Shah Suri
- (iii) Ashok
- (iv) Shivaji

5. Which agency is not included in informal loan sector or agency:

- (i) Bank
- (ii) Village money lender
- (iii) Trader

(iv) Relative of borrower

6. In SHG most of the decisions regarding savings and loan activities are taken by:

- (i) Bank
- (ii) Members
- (iii) Non-government organisations
- (iv) LIC

7. Formal sources of credit do not include:

- (i) Banks
- (ii) Co-operatives
- (iii) Employers
- (iv) LIC

8. Security (pledge, mortgage) against loan:

- (i) Collateral
- (ii) Token Coins
- (iii) Promisory Note
- (iv) Currency

9. The founder of Grameen bank of Bangladesh is:

- (i) Amartya Sen
- (ii) Mohammad Salim
- (iii) Mohammad Yunus
- (iv) None of the above

10. A bill of exchange promising payment to a certain sum written there in:

- (i) Currency
- (ii) Collateral
- (iii) Promisory note
- (iv) Bank rate

ANSWER:

1(iii) 2(i) 3(iv) 4(i) 5(i) 6(ii) 7(iii) 8(i) 9(iii) 10(iii)

- (a) “Money is what money does” – who said?
- (i) Crowther
 - (ii) Robertson
 - (iii) Walker
 - (iv) Marshall
- (b) Direct exchange of goods against goods is called:
- (i) Charter
 - (ii) Money
 - (iii) Barter
 - (iv) None of these
- (c) What possess general acceptability?
- (i) Bank draft
 - (ii) Money
 - (iii) Bill of exchange
 - (iv) None of these
- (d) Which type of deposits gives highest rate of interest?
- (i) Current deposit
 - (ii) Fixed deposit
 - (iii) Recurring deposit
 - (iv) None of these
- (e) Which bank deals with short-term credit?
- (i) Agricultural bank
 - (ii) Commercial bank
 - (iii) Industrial bank
 - (iv) None of these
- (f) Which of the following is not the function of the commercial bank?
- (i) Issue of paper notes.
 - (ii) Acceptance of deposits
 - (iii) Advancing loans
 - (iv) Credit control
- (g) Which of the following is not near money?
- (i) Paper notes
 - (ii) Treasury bill
 - (iii) Bond

- (iv) Bill of exchange
- (h) Which bank is called lender of last resort?
 - (i) Commercial bank
 - (ii) Agricultural bank
 - (iii) Industrial bank
 - (iv) Central bank
- (i) In which year the Reserve Bank of the India was established?
 - (i) 1945
 - (ii) 1947
 - (iii) 1935
 - (iv) 1953
- (j) Which bank enjoys monopoly power of Note issue?
 - (i) NABARD
 - (ii) Commercial Bank
 - (iii) Central Bank
 - (iv) None of these
- (k) For which function, money is accepted as unit of account?
 - (i) Measure of value,
 - (ii) Medium of exchange
 - (iii) Standard of deferred payment
 - (iv) Store of value
- (l) Which is considered as the mother of all Central Banks?
 - (i) Bank of England
 - (ii) Risks Bank of Sweden
 - (iii) Federal Reserve Bank
 - (iv) Reserve Bank of India
- (m) Which of the following is an example of direct tax?
 - (i) Sales tax
 - (ii) Commodity tax
 - (iii) Income tax
 - (iv) None of these
- (n) Who deals with income and expenditure of public authorities?
 - (i) Public finance
 - (ii) Private finance
 - (iii) Local Govt.

(iv) None of these

Answer:

(a) Walker, (b) Barter, (c) Money, (d) Fixed deposit, (e) Commercial bank, (f) issue of paper notes, (g) paper notes, (h) Central bank, (i) 1935, (j) Central bank, (k) Measure of value, (l) Bank of England, (m) Income tax, (n) Public finance.

Question 1.

Which one of the following is a formal source of credit?

- (a) Traders
- (b) Cooperative societies
- (c) Moneylenders
- (d) Friends and relatives

Answer: (b) Cooperative societies

Question 2.

Which one of the following is the appropriate meaning of collateral?

- (a) It is the sum total of money borrowed from banks.
- (b) The amount borrowed from friends.
- (c) It is an asset of the borrower used as guarantee to a lender.
- (d) The amount invested in a business.

Answer: (c) It is an asset of the borrower used as guarantee to a lender.

Question 3.

Which one of the following is a modern form of currency?

- (a) Paper notes
- (b) Gold
- (c) Silver
- (d) Copper

Answer: (a) Paper notes

Question 4.

Which one of the following is the newer way of providing loans to the rural poor, particularly women?

- (a) Cooperative Banks
- (b) Grameen Banks
- (c) Self-Help Groups
- (d) Moneylenders

Answer: (c) Self-Help Groups

Question 5.

Which of the following is the main informal source of credit for rural households in India?

- (a) Friends
- (b) Relatives
- (c) Landlords
- (d) Moneylenders

Answer: (d) Moneylenders

Question 6.

Name the system in which the double coincidence of wants is an essential feature.

- (a) Barter system
- (b) Money economy
- (c) Global economy
- (d) None of these

Answer: (a) Barter system

Question 7.

Grameen Bank of Bangladesh was started in

- (a) 1960s
- (b) 1970s
- (c) 1980s
- (d) 1990s

Answer: (b) 1970s

Question 8.

In a SHG, most of the decisions regarding loan activities are taken by

- (a) Banks

- (b) Members
- (c) Non-government organisation
- (d) Cooperative

Answer: (b) Members

Question 9.

Which of the following is not an informal source of credit?

- (a) Money-lender
- (b) Relatives and Friends
- (c) Commercial Banks
- (d) Traders

Answer: (c) Commercial Banks

Question 10.

In which country is the Grameen Bank meeting the credit needs of over 6 million poor people?

- (a) Bhutan
- (b) Sri Lanka
- (c) Bangladesh
- (d) Nepal

Answer: (c) Bangladesh

Question 11.

Which is not the main source of credit from the following for rural households in India?

- (a) Traders
- (b) Relatives and friends
- (c) Commercial Banks
- (d) Moneylenders

Answer: (a) Traders

Question 12.

What portion of deposits are kept by the banks for their day to day transaction?

- (a) 10%

(b) 15%

(c) 20%

(d) 25%

Answer: (b) 15%

Question 13.

Which households take more loans from the formal sector?

(a) Poor households and rich household.

(b) Well off households and households with few assets.

(c) Poor households and well off households

(d) Well off households and rich households.

Answer: (d) Well off households and rich households.

Question 14.

Which among these is an essential feature of barter system?

(a) Money can easily exchange any commodity

(b) It is based on double co-incidence of wants

(c) It is generally accepted as a medium of exchange of goods with money

(d) It acts as a measure and store of value

Answer: (b) It is based on double co-incidence of wants

Question 15.

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

(a) Informal

(b) Formal

(c) Both formal and informal

(d) Neither Formal nor informal

Answer: (b) Formal

Question 16.

Which one of the following is not a formal source of credit?

(a) Commercial Banks

(b) State Bank of India

- (c) Employers
- (d) Co-operatives

Answer: (c) Employers

Question 17.

Which one of the following agencies issues currency notes on behalf of the government of India?

- (a) Ministry of Finance
- (b) Reserve Bank of India
- (c) State Bank of India
- (d) World Bank

Answer: (b) Reserve Bank of India

Question 18.

Formal Sources of credit include :

- (a) money lenders
- (b) co-operatives
- (c) Employers
- (d) Finance companies

Answer: (b) co-operatives

Question 19.

Which one of the following is NOT an informal sector loans for poor rural household in India?

- (a) Commercial Banks
- (b) Moneylenders
- (c) Traders
- (d) Landlords

Answer: (a) Commercial Banks

Question 20.

Which one of the following is not a modern form of money?

- (a) Demand Deposits
- (b) Paper currency

- (c) Coins
- (d) Precious metals

Answer: (d) Precious metals

Question 21.

Identify the formal source of credit:

- (a) Cooperative societies
- (b) Moneylenders
- (c) Traders
- (d) Landlords

Answer: (a) Cooperative societies

Question 22.

Who helps the borrowers to overcome the problem of lack of collateral?

- (a) Self-help group (SHG)
- (b) State government
- (c) Employers
- (d) Moneylenders

Answer: (a) Self-help group (SHG)

Question 23.

Which of the following is not a modern form of money?

- (a) Paper notes
- (b) Demand deposits
- (c) Silver coins
- (d) None of the above

Answer: (c) Silver coins

Question 24.

Formal sources of credit include

- (a) banks
- (b) moneylenders
- (c) employers
- (d) all the above

Answer: (a) banks

Question 25.

Rate of interest charged by moneylenders as compared to that charged by banks is:

- (a) lower
- (b) same
- (c) slightly higher
- (d) much higher

Answer: (d) much higher

Question 26.

Which state accounts for maximum percentage of SHGs (self-help groups) in bank credit?

- (a) Andhra Pradesh
- (b) Tamil Nadu
- (c) Kerala
- (d) Karnataka

Answer: (a) Andhra Pradesh

Question 27.

Who supervises the credit activities of lenders in the informal sector?

- (a) Central Bank of India
- (b) Commercial banks
- (c) Moneylenders
- (d) None

Answer: (d) None

Question 28.

At present which form of money is increasingly used apart from paper money?

- (a) Commodity money
- (b) Metallic money
- (c) Plastic money
- (d) All the above

Answer: (c) Plastic money

Question 29.

Currency is issued in India by :

- (a) commercial banks
- (b) regional rural banks
- (c) nationalised banks
- (d) Reserve Bank of India

Answer: (d) Reserve Bank of India

Question 30.

The part of the total deposits which a bank keeps with itself in cash is

- (a) zero
- (b) a small proportion
- (c) a big proportion
- (d) 100 percent

Answer: (b) a small proportion

Question 31.

System of exchanging goods for goods is called:

- (a) monetary system
- (b) credit system
- (c) barter system
- (d) exchange system

Answer: (c) barter system

Question 32.

Money

- (a) eliminates double-coincidence of wants
- (b) acts as a common measure of value
- (c) acts as a standard of deferred payments
- (d) all the above

Answer: (d) all the above

DIRECTION : Mark the option which is most suitable :‘

- (a) If Both assertion and reason are true, and reason is the correct explanation of assertion.**
- (b) If Both assertion and reason are true, but reason is not the correct explanation of assertion.**
- (c) If Assertion is true, but reason is false.**
- (d) If Both assertion and reason are false.**

Assertion : The modern currency is used as a medium of exchange; however, it does not have a use of its own.

Reason : Modern currency is easy to carry

Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

The modern currency is used as a medium of exchange because it is accepted and authorized as a medium of exchange by a country's government.

Assertion : In India, no individual can refuse to accept a payment made in rupees.

Reason : Rupee is the legal tender in India.

Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

The law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

Assertion : The facility of demand deposits makes it possible to settle payments without the use of cash.

Reason : Demand deposits are paper orders which make it possible to transfer money from one person's account to another person's account.

Ans : (d) Both assertion and reason are false.

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.

Assertion : Banks keep only a small proportion of their deposits as cash with themselves.

Reason : Banks in India these days hold about 15 per cent of their deposits as cash.

Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

Banks keep only a small proportion of their deposits as cash with themselves because they use the major portion of the deposits to extend loans as there is a huge demand for loans for various economic activities.

Assertion : Banks charge a higher interest rate on loans than what they offer on deposits.

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

Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

Banks in India hold about 15 per cent of their deposits as cash as the remaining deposits are used to provide loans. The interest charged on loans is higher than the interest paid on deposits and the difference between the two interest rates is the major source of income for banks.

Assertion : Rohan took credit in the form of advance payment from a buyer and he delivered the goods to the buyer on time and also earned profit. The credit made Rohan better off in this situation.

Reason : Credit can never push a person into a debt trap.

Ans : (c) Assertion is true, but reason is false.

The credit made Rohan better off in this situation, however, Rohan would have been worse off if he had failed to deliver the goods on time or he had made a loss in the production process. The latter two situations may have caused Rohan to fall in a debt trap.

Assertion : Credit would be useful or not depends on the risk involved in a situation.

Reason : The chance of benefitting from credit is highest in agriculture sector.

Ans : (c) Assertion is true, but reason is false.

Whether credit would be useful or not depends on the risks in the situation and whether there is some support, in case of loss.

Assertion : Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

Reason : Collateral is given as the lender can sell the collateral to recover the loan amount if the borrower fails to repay the loan.

Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing. In case of failure of repayment of loan, the lender can sell the collateral to recover the loan amount.

Assertion : The terms of deposit are same for all credit arrangements.

Reason : Credit arrangements are very complex process so to remove the complexities same terms of deposits are used.

Ans : (d) Both assertion and reason are false.

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.

Assertion : The Reserve Bank of India supervises the functioning of formal sources of loans.

Reason : The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.

Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

The RBI oversees the functioning of commercial banks. The reason statement substantiates the assertion but it is not the explanation for the assertion.

SHORT ANSWER TYPE QUESTIONS OF MONEY AND CREDIT

1. Give the meaning and functions of money.

Ans. Meaning of money: Money may be anything chosen by common consent as a medium of exchange and measure of value.

Functions of money:

Primary functions:-

- (1) Medium of exchange
- (2) Medium of value

Secondary functions:-

- (1) Store of value
- (2) Standard of deferred payments
- (3) Transfer of value

Contingent functions:

- (1) Basis of credit
- (2) Liquidity
- (3) Maximum utilisation of resources
- (4) Guarantor of solvency
- (5) Distribution of National Income

2. What monetary system does India follow?

Ans. India follows the following monetary system:

- (a) India has adopted a representative paper currency or the managed currency standard.
- (b) The monetary standard is synonymous with the standard money adopted. Paper currency in India is the unlimited legal tender i.e. it is used to settle debts and make payments against all transactions.
- (c) RBI (The Reserve Bank of India) issues all currency notes and coins except one rupee notes and coins which are issued by the ministry of finance.
- (d) The system governing note issues the minimum reserve system viz. certain quantity of gold is kept in reserve.

3. What is banking? Give the main features of commercial banking.

Ans. Banking is defined as the accepting of deposits for the purpose of lending or investment of deposited money by the public, repayable on demand or otherwise and withdrawal by cheque, draft order or otherwise.

Main features of commercial banks are as follows:

- (i) It deals with money, it accepts deposits and advances loans.
- (ii) It also deals with credit, it has the power to create credit.
- (iii) It is a commercial institution, whose aim is to earn profit.
- (iv) It is a unique financial institution that creates demand.
- (v) It deals with the general public.

4. Differentiate between demand deposits and fixed deposits.

Ans. The difference between demand deposits and fixed deposits:

- (i) These deposits can be withdrawn by their depositors at any time without notice.
- (ii) They are chequable i.e. demand deposits are withdraw able through cheques.
- (iii) No interests are paid on these deposits. Rather depositors have to pay something in the bank for its services.
- (iv) These deposits constitute a part of money supply.

5. What are the different forms in which the commercial banks advance loans?

Ans. Banks normally advance three types of loans:

(i) Ordinary loans: these are simple loans extended by banks for different purposes both consumption and investment. The amount of loan granted is credited to the borrower's deposit account with the bank and can easily be withdrawn in cash or by writing cheques.

(ii) Overdraft: Overdraft facility is extended to the customers who maintain a current account with the bank. Under this system banks honour cheques issued by customers in excess of the balance in their accounts.

(iii) Discounting bills: Bill means a bill of exchange. Banks extend credit facilities by discounting bills of exchange. Banks discounts the bills after charging the interest for the period and cost of collection.

LONG ANSWER TYPE QUESTIONS

1. Discuss the historical origin of money.

Ans. Historical origin of money:

(a) Animal money: First of all, human beings used animals as a medium of exchange. For example, the Vedic literature tells us that cows or horses were used as money in India.

(b) Commodity money: Before the invention of money several commodities were used as money. Even today in small villages food-grains like, wheat, horse gram, rice etc. are used as commodity money.

(c) Metallic money: Man used metal, like copper, silver, gold, etc. as a medium of exchange. Coins were minted by goldsmith and used as money until paper money was invented.

(d) Paper money: China was the first country that started using representative paper currency standard. Certain quantity of gold is kept as reserve in proportion to currency notes issued at the particular point of time. Coins are also used besides paper currency in our country.

(e) Credit money: Credit money is also known as bank money. It refers

to bank deposits kept by people with banks which are payable on demand and can be transferred from one party to another through cheque/ demand drafts/pay orders etc.

2. Highlight the formal and informal credit sources in India.

Ans. *Formal credit sources:*

(i) Commercial Banks

(ii) Central Bank

(iii) Government Agency

(iv) LIC

(v) Registered Chit Fund Companies

(vi) UTI

(vii) Mutual Fund Institution Above mentioned all formal financial institutions accept savings and sanction loans to the people, companies and other agencies.

Informal credit sources:(i) Local moneylenders: village mahajan and sarafs or gold smiths in the rural areas or in the cities.

(ii) Land lords: this class include the big, middle and small category land-lords. They accept as collateral, title documents of agricultural land, dwelling unit, factories and issue loans to needy persons and companies.

(iii) Self help groups: thrift and credit societies, union of government servants, cooperative societies and farmers, labourers, domestic helpers and housewives organisations. They also accept savings from different people and help their needy members.

(iv) Chit fund companies and private finance companies are very powerful informal financial institutions. Some of them are working very effectively in villages and cities and all pay more interest to depositors than the formal agencies and institutions.

3. What are main functions of Reserve Bank of India?Ans. The main function of the central bank is to act as the governor of the machinery of credit in order to secure stability of prices. It regulates the volume of credit and currency, pumping in more money when market is dry of

cash, and pumping out money when there is credit. Broadly a central bank has two departments namely, issue department and banking department.

The main functions are:

(i) Issue of currency: the central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money.

(ii) Banker to the government: central bank functions as a banker to the government – both central and state governments. It carries out all banking business of the government.

(iii) Banker's bank and supervisor: *Central Bank acts as banker's bank in three capacities-*

(a) it is custodian of their cash reserves.

(b) Central Bank is lender of last resort.

(c) It acts as a bank of central clearance, settlements and transfers.

(d) Controller of credit and money supply: it is an important function of a central bank to control credit and money supply through its monetary policy.

There are two parts of monetary policy, viz, currency and credit. Central bank has a monopoly of issuing notes and thereby can control the volumes of currency. It controls credit and money supply by adopting quantitative and qualitative measures.

4. Explain the composition and functioning of SHG in rural India.

Ans. Self Help Groups are organisations formed by rural people and women in particular. Members to these groups are daily wagers, labourers, small farmers and agricultural workers.

A typical SHG has fifteen to twenty members. They meet daily and save regularly. Saving per member, per day varies from Rs. 25 to Rs. 100 or even more depending on their ability of earning and saving. These groups charge interests on amount given as loan to their members but at negligible rates.

After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of group

and is meant to create self employment opportunities for the members. For instance, small loans are provided to the members for releasing mortgaged land, for meeting working capital needs (e.g. buying seeds, fertilisers, raw materials like bamboo and cloth) for housing materials and for acquiring assets like sewing machines, handlooms, cattle etc.

5. What do the banks do with the deposits which they accept from the public which they accept from the Public?

Ans. Banks keep only a small proportion of their deposits as cash with themselves. For example, banks in India these days hold about 15% of their deposits as cash. This is kept as provision to pay the depositors who might come to withdraw money from the bank on any given day. Since, on any particular day, only some of its many depositors come to withdraw cash, the bank is able to manage with the cash.

Banks use the major portion of the deposits to extend loans. There is huge demand for loans for various economic activities. Banks make use of the deposits to meet the loan requirements of the people.

In this way, banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers).

Banks charge a higher interest rate 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.

Money and Credit

1 Mark Questions

1. The exchange of goods for goods is:

- (i) banker of option
- (ii) bills of exchange
- (iii) barter
- (iv) currency

Ans. (iii) barter

2. Currency is issued by:

- (i) RBI on behalf of central government
- (ii) By president of India.
- (iii) By finance minister
- (iv) None of them

Ans. (i) RBI on behalf of central government

3. National Sample Survey Organization is a :

- (i) Commercial bank organization
- (ii) An organization of World Bank
- (iii) An organization associated with Indian Standard. Institute
- (iv) An institution responsible to collect data on formal sector credit.

Ans. (iv) An institution responsible to collect data on formal sector credit.

4. Gold mohar, a coin so named was brought in circulation by:

- (i) Akbar
- (ii) Sher Shah Suri
- (iii) Ashok
- (iv) Shivaji

Ans. (i) Akbar

5. Which agency is not included in informal loan sector or agency:

- (i) Bank
- (ii) Village money lender
- (iii) Trader
- (iv) Relative of borrower

Ans. (i) Bank

6. In SHG most of the decisions regarding savings and loan activities are taken by:

- (i) Bank
- (ii) Members
- (iii) Non-government organizations
- (iv) LIC

Ans. (ii) Member

7. At what interest rate Shamlal borrow money from the village moneylender?

Ans. 5% per month or 60% per annum

8. What is NABARD?

Ans. National Bank for Agriculture and Rural Development.

9. Name the organization that conducted All India Debt and Investment Survey, 2003.

Ans. NSSO

10. Write a special feature of the Gupta coins.

Ans. Gupta coins were not fully circular in shape and a picture of a king or a person was depicted on it.

11. Which is the main source of credit for rich urban households in India?

Ans. Formal Sources of credit are the main source.

12. Name the system by which exchange of goods is done without uses of money?

Ans. Barter System

13. How much percent of rural household in India is dependent upon money lenders for credit during 2003?

Ans. 30 percent.

14. How many members a typical self help group should have?

Ans. 15-20 members

15. Who takes the decision in SHG regarding savings and loan activities?

Ans. Members of Self Help Group

16. How much percentage of total deposits banks hold as cash reserves?

Ans. 15% of total cash reserves

17. Give one special feature that distinguish formal sector from informal sector.

Ans. RBI supervises the functioning of the formal sources of credit while no organization is there to supervises the lending activities if informal sources of credit.

18. Name the system in which double coincidence of wants is essential feature.

Ans. Barter system.

19. Give one reason why the banks and cooperatives are are popular lending agencies?

Ans. Because these agencies provide loan at very less interest rates.

20.What is 'Debt Trap'?

Ans. Debt trap is situation in which a borrower is unable pay back the loan and he has to sell is any asset to repay back the borrowed money. Credit in such case pushes the borrower in to a situation from which the recovery is very painful.

21.Name the agency from whom Rama took loan to meet her expenses.

Ans. Her employer, a medium land lord

22.In which year Professor Muhammad Yunas received the Nobel Prize for Peace?

Ans. In 2006

23.Which is the main source of credit for urban households?

Ans.Banks and Cooperatives

24.Name the agency from whom Arun took loan to meet her expenses

Ans.Bank

25.Give one reason to deposit money with the banks.

Ans.To save money and to earn interest

26.Give a special feature the Tughlaq Coins.

Ans.These are square in shape and words of a particular language are written on it.

27. Give the meaning and functions of money.

Ans. Meaning of money:Money may be anything chosen by common consent as a medium of exchange and measure of value.

Functions of money:

(A) Primary functions:

- (a) Medium of exchange (b) Medium of value
(B) Secondary functions:
(a) Store of value (b) Standard of deferred payments (c) Transfer of value
(C) Contingent functions:
(a) Basis of credit (b) Liquidity (c) Maximum utilization of resources (d) Guarantor of solvency (e) Distribution of National Income
-

28. What monetary system does India follow?

Ans. (a) India has adopted a representative paper currency or the managed currency standard.

(b) The monetary standard is synonymous with the standard money adopted. Paper currency in India is the unlimited legal tender i.e. it is used to settle debts and make payments against all transactions.

(c) RBI (The Reserve Bank of India) issues all currency notes and coins except one rupee notes and coins which are issued by the ministry of finance.

(d) The system governing note issues the minimum reserve system viz. certain quantity of gold is kept in reserve.

3 Mark Questions

1. What is banking? Give the main features of commercial banking.

Ans. Banking is defined as the accepting of deposits for the purpose of lending or investment of deposited money by the public, repayable on demand or otherwise and withdrawal by cheque, draft order or otherwise.

Main features of commercial banks are as follows:

- (i) It deals with money, it accepts deposits and advances loans.
- (ii) It also deals with credit, it has the power to create credit.
- (iii) It is a commercial institution, whose aim is to earn profit.
- (iv) It is a unique financial institution that creates demand.
- (v) It deals with the general public.

2. Banks are present everywhere, but it is very difficult for poor households to get loan from the bank than taking a loan from informal source? Why is it so?

Ans. Banks are present everywhere, but it is very difficult for poor households to get loan from the bank than taking a loan from informal source. Poor house hold give preference to informal sources of credit because bank loans require proper documentation and collateral which is rarely available with poor households and it prevents them from getting loans. Sometimes banks hesitate to give loans to poor households. On the other hand, Informal source of credit like Money lenders

personally know the borrowers and willing to give loans without collateral. The documentation process of money lenders is not very rigid.

3. Why do lenders ask for collateral while lending?

Ans. Lenders asked for collateral while lending money to the borrowers due to the following reasons:

- A. Lenders demand collateral against loan because it is a security against loan.
 - B. Collateral is an asset that the borrower owns and uses this as a guarantee to lender until the loan repaid.
 - C. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.
 - D. Property such as land titles, deposits with banks, livestock, gold, are some common examples of collateral.
-

4. How will you justify that credit is a crucial element in economic life?

Ans. Credit plays a crucial role in economic life. Some time it plays a negative role some time positive.

Positive Role:

- 1. Sometimes credit helps to increase earnings makes the person better than before.
- 2. Credit helps the person to enhance his business his economic condition.

Negative role:

- 1. Some time person borrow money to increase his business or for personal use.
- 2. If the borrower fails to pay back the borrowed money, it pushes the person in to bank trap.

To repay the loan the borrower has to sell his land or the lender detained the collateral.

5. For what purpose banks keeps a small portion of the deposits as cash with themselves?

Ans. 1. Banks keep only a small proportion of their deposits as cash with themselves.

- 2. Banks in India these days hold 15 percent of their cash deposits as cash.
 - 3. This is kept as provision to pay the depositors who might come to withdraw money from the bank on any given day.
 - 4. Since on any particular day, only some of its many depositors come to withdraw cash, the bank is able to manage with this cash.
-

6. Explain the intermediary function of Money? Elaborate with example.

Ans. Money by providing the crucial intermediate step eliminates the need for double coincidence of wants. It is no longer necessary for the shoe manufacturer to

look for a farmer who will buy his shoes and at the same time sell him wheat. All he has to do is find a buyer for his shoes. Once he has exchanged his shoes for money, he can purchase wheat or any other commodity in the market. Since money acts as an intermediate in the exchange process, it is called a medium of exchange.

7. What motives are there to deposit money the bank by depositors?

Ans. 1. Money in banks is safe.

2. Depositor gets interest on it.

3. People also have provision to withdraw the money as and when they need.

8. How will you justify that interest on loans is a main source of income of the banks?

Ans. Banks mediate between those who have surplus funds and those who are in need of these funds. It means that a bank mediates between borrowers and depositors. Banks charge very high interest rate on loans than what they offer to the depositors. The difference between what is charged from borrowers and what is paid to depositors is their main source of income. These days' banks started so many schemes just to attract the borrowers. Banks offer loans at attractive interest rate. The main motive behind all these steps of banks is to earn huge profits.

9. How far it is correct to say that the modern currency is without any use of its own as a commodity? Give reasons to support your answer?

Ans. A. Modern forms of money include currency-paper notes and coins.

B. Unlike the things that were used as money earlier, modern currency is not made of precious metals such as gold, silver and copper. And unlike grain and cattle, they are neither of everyday use.

C. The modern currency is merely a paper currency and it is accepted a medium of exchange because it is authorized by the government of the country. So the modern currency is without any use of its own.

10. What facts would you use to explain the role of credit for the development?

Ans. 1. Credit meets the working capital for production.

2. Credit helps the producers to meet the ongoing expenses of production.

3. Farmers and industrialists need credit to expand their business and to purchase new tools and equipments.

4. With the help of credit a person can purchase a house, bike, car and other household implements.

11. Mention the requirements a borrower has to fulfill before taking a house loan?

Ans. 1. A Person has to submit documents showing his employment record and salary record.
2. Person has to submit his identity proof and residential proof.
3. Borrower has to produce a guarantor.
4. Collateral is a very important condition which a barrower has to submit in the bank.

12. "I promise to pay the bearer the sum of ten Rupees". Where is this statement written and what do you understand from this statement?

Ans. 1. This statement is written on the ten rupees note.
2. The meaning of statement is that the Reserve bank of India has been authorized by the Central Government to issue 10 Rupees note and the governor of RBI promises to pay rupees 10 to the person who has this note. Without this authority given by the central government the 10 Rupees note is mere a piece of paper and nothing else. In India the Reserve Bank of India issues currency notes on behalf of the central government.

13. Why there is a need to supervise the banking system by RBI?

Ans. Reserve bank of India supervises the Banking system due to the following reasons:

1. The RBI monitors that the banks maintain a minimum cash balance.
2. RBI ensures that the banks give loan not just to the profit making businessmen and traders but also to small cultivators, small scale industries and small borrowers.
3. Banks have to submit the information to the RBI on how much they are lending, to whom, at what interest rates etc.

14. Suggest some ways by which small farmers can get cheap credit.

Ans. A. Small farmers can get cheap credit by forming cooperatives. They can form cooperatives which can obtain large loan from the bank.
B. The cooperatives use the bank loan to provide loans to members at cheaper rates than the moneylenders.
C. Small farmers can also get loan from the banks if they are able to provide collateral to the banks.
D. Small farmers can also get loan from Self Help Groups by becoming members of it.

15. Elaborate the reasons why the banks might not be ready to lend to the certain borrowers?

Ans.A. Bank loans require proper documentation and collateral.

- B. People who do not apply for loan with proper documentations and collateral are refused by the bank.
- C. The poor people and land less farmers fall in this category.
- D. Absence of collateral is one of the main causes for not sanctioning loans to the poor people and land less people.
-

16. With the help of one example can you explain the role of credit for development?

- Ans. 1. Credit helps in increasing economic activities of the borrower.
2. If credit is provided at reasonable rate of interest they can improve their economic condition. This will help them to improve their status.
3. With the help of credit people could increase their agricultural production, do business, set up small scale industries.

Example: During festival season Salim, a shoe manufacturer has received an order from a large trader in town for 3000 pairs of shoes to be delivered in a month time. To complete production on time Salim has to hire a few more workers for stitching and pasting work. He has to purchase the raw material. To meet his expenses Salim obtain loan from two different sources. At the end of the month, Salim is able to deliver the order, make a good profit, and repay the money that he had borrowed. He had also earned huge profit. In this way credit helps Salim to improve his business.

17. What are Self Help Groups? Explain the aims of Self Help Groups.

- Ans. Self Help Groups: Self Help Groups is an organization of 15-20 members belonging to one neighborhood, who meet and save money regularly.
- Aim of Self Help Groups: The main aim of Self Help Group is to organise rural poor, women in particular and collect their savings and to take loans from the group to meet their needs. The group takes loan from the bank to create self employment opportunities for the members.
-

18. Which is the most important term of credit according to your views? Explain.

- Ans. Collateral is the most important term of credit. Collateral is an asset that the borrower owns. Such as land, building, vehicles, livestock, deposits with bank are some examples of collateral. These items are used as a guarantee to a lender until the loan is repaid. If the borrower fails to pay the loan the lender has the right to sell the asset or collateral to obtain payment. The poor people and land less people have no collateral. This prevents them to take loan from formal sources of credit. Banks first ask for the collateral than they issue loans to the people. So due to the above reason collateral is the most important term of credit.
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19. Name any two formal and informal sources of credit in India? Which one is the most preferred by the farmers of the rural area?

Ans.

1. Cooperatives and commercial banks are the two examples of the formal sources of credit.
 2. Money lenders and friends are the two examples of the informal sources of credit.
 3. The most preferred source of credit to the farmers is money lenders. About 30% of loan requirements are covered from moneylenders by the rural households in India according to the survey of 2003.
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20. Is there any criterion to make payments without using cash? Explain.

Ans. We have heard about payments being made by cheques instead of cash.

A. For payment through cheque, the payer who has an account with the bank makes out a cheque for a specific amount.

B. A cheque is a paper instructing the bank to pay a specific amount from the person in whose name the cheque has been made.

21. What facts show that modern forms of money are different from the early forms of money?

Ans. A. Modern forms of money are including currency-paper notes and coins.

B. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper.

C. And unlike grain and cattle, they are neither of everyday use.

D. The modern currency is without any use of its own.

22. "Cheap and affordable credit is essential for poor households both in rural and urban areas". In the light of given statement explain the economic and social values attached to it.

Ans. A. Economic value: Cheap and affordable credit will provide the economic development opportunities to the poor households. It will increase the income of the poor. With the help of loan they can start their any small trade. Gradually they will return the credit and become self dependent.

Social Value: The poor can live with dignity in the society if they will become self dependent. They are free from the clutches of money lender and traders of their locality.

23. Suggest some way to increase the approachability of formal sources of credit in the rural areas?

- Ans. 1. Government has to take some initiative by making some public welfare policies.
2. More Banks should be open in rural areas.
 3. Credit should be provided at low interest rate to the needy and hardworking poor house hold of the rural areas.
 4. Awareness should be spread among the people of rural areas by conducting seminars.
 5. The procedure of giving loans should be made easy and simpler.
-

24. What is meant by Informal Sources of Credit? Mention the drawbacks of this system.

- Ans. 1. Informal source of Credit includes the credit from money lenders, friends, traders, employers and relatives. There are no rules and regulations of government are applied on these institutions.
2. These institutions charge very high interest rates.
 3. There is no government organization to supervise the functioning of these sources of credit.
 4. The sources of credit some time use unfair means to get their money back.
-

25. Explain the different requirements of rural people for which they need credit.

- Ans. 1. They need credit to meet the expenses of cultivation.
2. If crop fails they need credit to purchase agricultural implements
 3. They need credit to purchase pesticides and fertilizers.
 4. Sometime they need credit to meet their household expenses.
 5. Sometimes they need credit to repay back the previous credit.
-

26. Explain the different types of objects used as money before the introduction of coins?

- Ans. A. Before the introduction of coins, a variety of objects was used as money.
B. For example since the very early ages. Indians used grains and cattle as money.
C. There after came the use of metallic coins-gold, silver, copper coins- a phase which continued well into the last century.
-

27. Can an Indian shopkeeper refused the payment made in rupees? Give reason to justify your answer?

- Ans. 1. In India, the Reserve bank of India issues currency notes on behalf of the central government.
2. As per Indian law, no other individual or organization is allowed to issue currency.

3. Moreover the law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions on India.
 4. So individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.
-

28. Can you identify the reasons why banks give interest on the deposits made by people?

- Ans. 1. The business of banks totally dependent on the deposits.
2. Banks keeps a small portion of deposits as cash with themselves.
 3. Banks use the major portion of deposits to extend loans.
 4. Banks charge very high interest of the loans given to the borrowers. This is the main profit of Banks.
 5. There is a huge demand for loan for various economic activities. Banks need money to meet the loan requirements.
 6. Just to increase the funds and to attract the depositors, banks give interest on the deposits made by people.
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29. "Money plays very important role in our everyday life" Explain.

- Ans. 1. The use of money expands a very important role in our everyday life. No transaction is possible without the use of money.
2. Goods are bought and sold with the use of money.
 3. The objective of each and every person is to earning money. All human beings are working day and night to earn money.
 4. If we want to purchase any thing if it is tiny or large we need money.
-

30. What is Barter system? Explain this system with an example.

- Ans. 1. Barter System: In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. When both parties have to agree to sell, buy and ready to exchange each other's commodities are called double coincidence of wants.
2. Example: A Shoe seller sells his shoe in exchange of wheat. In this case, both parties i.e., shoe seller and wheat producers have to agree to sell and buy each other's commodities. This is barter system and this system requires double coincidence of want.
-

31. Mention the short comings of the barter system that led to the evolution of money?

- Ans. 1. Exchanging of goods was difficult. Demand of two persons for each other's commodity should have risen at the same time, otherwise exchange was not possible. This is known as double coincidence of want.

2. It is a time consuming process.
 3. Exact valuation of goods may not be take place at the time of exchange of goods.
 4. It is difficult to get the product on the spot and at the right time.
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32. Discuss the historical origin of money.

Ans. Historical origin of money:

- (a) Animal money: First of all, human beings used animals as a medium of exchange. For example, the Vedic literature tells us that cows or horses were used as money in India.
 - (b) Commodity money: Before the invention of money several commodities were used as money. Even today in small villages food-grains like, wheat, horse gram, rice etc. are used as commodity money.
 - (c) Metallic money: Man used metal, like copper, silver, gold, etc. as a medium of exchange. Coins were minted by goldsmith and used as money until paper money was invented.
 - (d) Paper money: China was the first country that started using representative paper currency standard. Certain quantity of gold is kept as reserve in proportion to currency notes issued at the particular point of time. Coins are also used besides paper currency in our country.
 - (e) Credit money: Credit money is also known as bank money. It refers to bank deposits kept by people with banks which are payable on demand and can be transferred from one party to another through cheque/demand drafts/pay orders etc.
-

33. Highlight the formal and informal credit sources in India.

Ans. (A) Formal credit sources

- (i) Commercial Banks (ii) Central Bank (iii) Government Agency (iv) LIC (v) Registered Chit Fund Companies (vi) UTI (vii) Mutual Fund Institution

Above mentioned all formal financial institutions accept savings and sanction loans to the people, companies and other agencies.

(B) Informal credit sources

- (i) Local moneylenders: village mahajan and sarafs or gold smiths in the rural areas or in the cities.

(ii) Land lords: this class include the big, middle and small category land-lords. They accept as collateral, title documents of agricultural land, dwelling unit, factories and issue loans to needy persons and companies.

(iii) Self help groups: thrift and credit societies, union of government servants, cooperative societies and farmers, labourers, domestic helpers and housewives organizations. They also accept savings from different people and help their needy members.

(iv) Chit fund companies and private finance companies are very powerful informal financial institutions. Some of them are working very effectively in villages and cities and all pay more interest to depositors than the formal agencies and institutions.

34. What are main functions of Reserve Bank of India?

Ans. The main function of the central bank is to act governor of the machinery of credit in order to secure stability of prices. It regulates the volume of credit and currency, pumping in more money when market is dry of cash, and pumping out money when there is credit. Broadly a central bank has two departments namely, issue department and banking department.

The main functions are:

- (i) Issue of currency: the central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money.
- (ii) Banker to the government: central bank functions as a banker to the government – both central and state governments. It carries out all banking business of the government.
- (iii) Banker's bank and supervisor: Central Bank acts as banker's bank in three capacities:
 - (i) it is custodian of their cash reserves.
 - (ii) Central Bank is lender of last resort.
 - (iii) It acts as a bank of central clearance, settlements and transfers.
- (iv) Controller of credit and money supply: it is an important function of a central bank to control credit and money supply through its monetary policy. There are two parts of monetary policy, viz, currency and credit. Central bank has a monopoly of issuing notes and thereby can control the volumes of currency. It controls credit and money supply by adopting quantitative and qualitative measures.

5 Mark Questions

1. What is Bank? Can you illustrate the functions of a Bank?

Ans. Banks are institutions which accept the deposits from the public withdrawable by cheques and by demand deposits and advances loans of various types to the borrowers is called a Bank. Following are the functions of Bank:

1. It accepts the deposits from customers. It can be in the form of saving account deposits, current account and fixed deposits.
2. It gives interests on the savings to the customers.

3. It provides withdrawal facility to the customers.
4. It gives loans and advances to the borrowers and charge interest
5. It provides agency function like transfer of funds, collection of funds, payment of various items, purchase and sale of shares and securities.

2. Describe the role played by Grameen Bank of Bangladesh in improvement of the condition of poor particularly women.

Ans. Grameen Bank of Bangladesh was started in the 1970s. It has now over 6 million borrowers in about 40,000 villages. Almost all the borrowers are women and belong to poorest sections of the society. These borrowers have proved that not only are poor women reliable borrowers, but they can start and run a variety of small income generating activities successfully. Thus the Grameen bank has played a significant role in the improvement of the condition of the poor women in Bangladesh. Professor Muhammad Yunus, the founder of Grameen Bank and recipient of 2006 Nobel Peace prize for peace has stated that, "if credit can be made available to the poor people on terms and conditions that are appropriate and reasonable these million of small people with their millions of small pursuits can add up to create the biggest development wonder".

3. Highlight the contribution of the Krishak Cooperative societies to overcome the problem of credit in rural areas?

Ans. Besides banks the other major source of cheap credit in rural areas are the cooperative societies. The members of a cooperative pool their resources for cooperation in certain areas.

Krishak Cooperatives functions in a village not very far away from Sonpur.

It has 2300 farmers as members. It accepts deposits from its members.

With these deposits as collateral, the cooperative has obtained a large loan from bank.

These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

Krishak cooperatives provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses

4. Why do you think that credit plays a positive role in the situation of Swapna, where as it plays a negative role in the situation of Salim? Explain.

Ans. Swapna is a small farmer and grows groundnuts on her three acres. She takes loan from the money lender to meet the expenses of cultivation, hoping that her harvest would help repay the loan. Mid way through the season the crop is hit by pests and the crop fails. Though Swapna sprays her crops with expensive

pesticides, it makes little difference. She is unable to repay the moneylender and the debt grows over the year into large. In this way credit put swapna in to worse conditions.

During festival season Salim, a shoe manufacturer has received an order from a large trader in town for 3000 pairs of shoes to be delivered in a month time. To complete production on time Salim has to hire a few more workers for stitching and pasting work. He has to purchase the raw material. To meet his expenses Salim obtain loan from two different sources. At the end of the month, Salim is able to deliver the order, make a good profit, and repay the money that he had borrowed. He had also earned huge profit. In this way credit helps Salim to improve his business.

5. What is debt trap? Why is it more rampant in rural areas? Give reasons.

Ans. Debt Trap: Debt trap is a condition where the credit pushes the borrower into a situation from which the recovery is very painful, it is called debt trap. Here the borrower fails to repay the borrowed money to the lender and he has to sell his small portion of land to repay the loan. It is rampant in rural areas because of the following reasons:

1. Rural areas small farmers give preference to the informal sources to take loan. The interest rates if these sources are very high.
2. Farmers take loan for crop production, equipment, fertilizers. If crop fails due to any reason they become unable to pay back the loan.
3. There is unusually absence of any kind of support to the farmers in case of crop failure.
4. The main source of their income is production of crops. If it fails than they don't have any other source of income from which they can repay their borrowings.

6. Why do you think that the formal sources of credit provide loans at reasonable interest rates?

Ans. A. Formal sources of credit work according to the norms of Reserve Banks of India.

B. The RBI monitors that the banks give loans not just to the profit-making businessmen and traders. But also to small cultivators, small scale industries, to small borrowers etc.

C. Rates of interest are fixed by RBI according to the instructions given by central government. Indian government is a welfare state.

D. The formal sources to provide loan at low interest rate because people can increase their income and help them in the overall development of the country.

7. How would you describe the organization and functioning of Self Help Group?

Ans. 1. Self Help Groups are the groups organized by the poor needy persons themselves, especially women to fulfill their credit and loan needs. A typical Self Help Group has 15 to 20 members, who meet and save regularly.

2. Saving per member varies from Rs 25 to 100 or more, depending in the ability of the people to save.

3. Members can take small loans from the group itself to meet their needs.

4. The group charges interest on these loans but this is still less than what the money lenders charges.

5. After a year or two, if the group is regular in saving, it becomes eligible for availing loan from the bank.

6. Loan is sanctioned in the name of group and is meant to create self-employment opportunities for the members.

8. Elucidate the developments in the forms of currency since early times.

Ans. A. Barter system was the earliest method to buy and sell products.

B. Before the introduction of coins, a variety of objects was used as money.

C. For example since the very early ages. Indians used grains and cattle as money.

D. There after came the use of metallic coins-gold, silver, copper coins- a phase which continued well into the last century.

E. Modern forms of money include currency- paper notes and coins. Unlike the things that were used as money earlier, modern currency is not made of precious metals. The modern currency is without any use of its own.

F. Currency notes, cheques, are the examples of modern forms of Currency notes.

9. Mention the reasons for which the informal sources of credit preferred in rural area?

Ans. 1. The rural area people are unable to provide collateral.

2. There is no need of paper work which the rural poor people are not able to provide.

3. In rural areas moneylenders, traders and rich landlords have no objection to defaulters even if the previous loan is unpaid.

4. Poor people hesitant and are not confident about the functioning of the banks.

5. Banks are not accessible to the villages of poor people.

6. The procedure by which moneylenders and rich landlords is very simple.

10. How does Reserve bank of India lay a crucial role in controlling the formal sector loans? Explain.

Ans. A. The Reserve bank of India supervises the functioning of formal sources of credit of India.

B. The RBI monitors that the banks actually maintain a minimum cash balance out of the deposits they receive.

C. RBI ensures that the banks give loans not just to profit making business and traders but also to small cultivators, small-scale industries, small borrowers etc.

D. Periodically banks have to submit information to the RBI on how much they are lending to whom at what interest rates etc.

E. RBI is the central bank of India.