**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 Deposits in bank accounts withdrawn on demand are called:**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 informaal sector?**

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

**interest rates are decreased on credit**

**formal sector loans expands,andeveryone 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 follwoing 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 toRs100 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 :‘**

1. **If Both assertion and reason are true, and reason is the correct explanation of assertion.**
2. **If Both assertion and reason are true, but reason is not the correct explanation of assertion.**
3. **If Assertion is true, but reason is false.**
4. **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 : Modem currency is easy to carry**

**Ans :** (b) Both assertion and reason are true, butreason 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, andreason 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, butreason 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 Ioans 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, andreason 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 Ioans 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, butreason 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.