



Topics

to be covered



- 1 Money –Medium of Exchange
- 2 Modern Forms of Money
- 3 Credit
- 4 SHG





Money –Medium of Exchange



1. Money acts as an intermediate in the exchange process & it is called Medium of exchange. ✓
2. In a **BARTER SYSTEM**, goods are directly exchanged without the use of money. ✓
3. Double coincidence of wants is an essential feature of barter system. ✓
4. Double coincidence of wants what a person desires to sell is exactly what the other wishes to buy. ✓



Modern Forms of Money



1. During early ages, i.e., before introducing coins or currency notes
In India grains and cattle were used as money. — —]
2. A variety of objects were used for exchange and settlement of transactions. — — ✓
3. After that, metallic coins gold, silver & copper coins that lasted till the last century — ✓



Currency

- In the **Modern forms of currency** → paper notes and coins are used as a medium of exchange.
- Money is accepted as a medium of exchange → because the currency is authorized by the government of the country.
- In India, the Reserve Bank of India issues currency notes on behalf of the central government
- According to the law no one can refuse payment made in rupees to settling transactions. Rupee is widely accepted as a medium of exchange.



Deposits with Banks

- The other form in which people hold Money is as **deposits with banks**. Bank deposits are also a form of the modern economy.
- In this, people can open a bank account and deposit their extra cash with the Bank and Banks accept the deposits and also pay an amount as interest on the deposits.
- The deposits in the bank accounts can be withdrawn on demand; these deposits are called demand deposits.
- **Demand deposits** offer another interesting facility → The payments being made by cheques instead of cash.
- A **cheque** is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued
- The facility of cheque against demand deposits makes it possible to directly settle payments without the use of cash.



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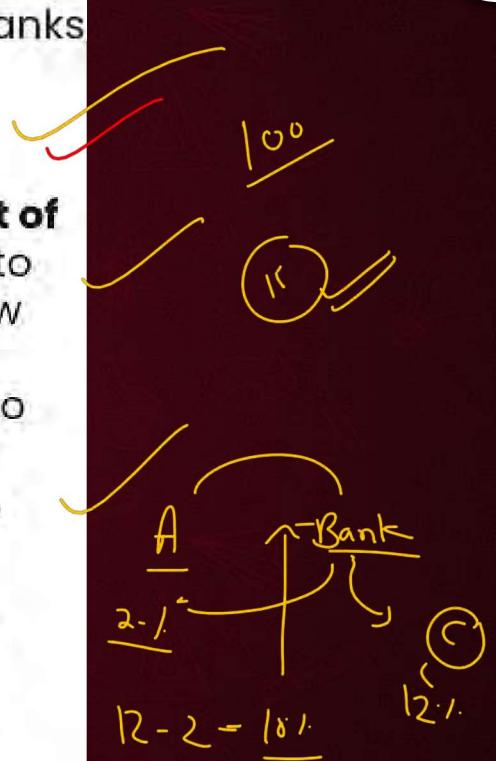
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Cheque No **MICR Code** **RBI A/C NO** **Transation Code**



3. LOAN ACTIVITIES OF BANK

- The majority of people deposit their money in banks. The banks only keep a small portion of these deposits with themselves. It is used when the depositors come to withdraw their money.
- Banks in India these days hold about **15 per cent 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.
- The other major portion of the deposits is used to offer loans to borrowers. People need loans for various economic activities like buying a house, vehicles etc.
- Thus, Banks act as a mediator between the depositors (those who have surplus funds) and Borrowers (those who need funds).
- These banks charge a higher rate of interest on the 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.



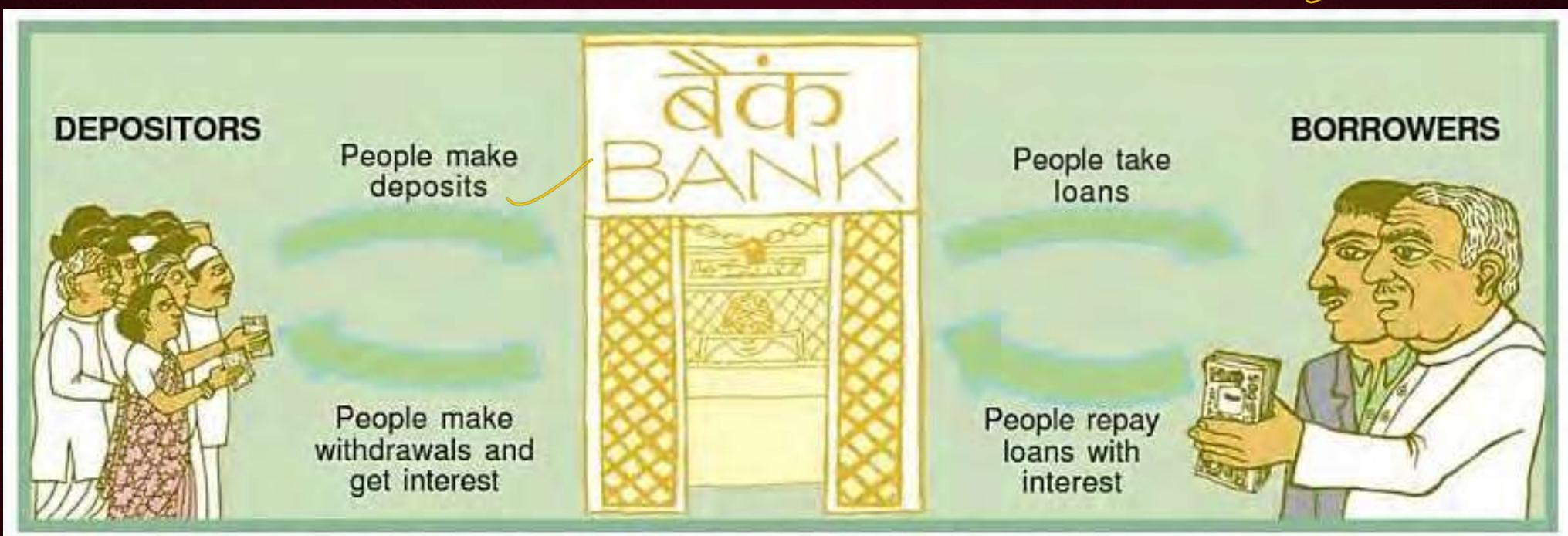


Figure : Flow of money in banking sector



Kal Hai Somvar



Parso Mangunga Vidhayak Ji Se Udhaar



Credit



Credit (Loan): It is an agreement in which a borrower receives money, goods, or services from a lender for now and promises to return the resources or repay the lender in the future



Credit Situations



First Situation

A person (manufacturer) obtains credit to meet the working capital needs of production. The credit helps him to meet the on-going expenses of production, complete production on time, and thereby increase his earnings. Credit therefore plays a vital and positive role in this situation.

Second Situation

A person obtains credit for producing goods. For example, in rural areas, the main demand for credit is for crop production → involves considerable costs on seeds, fertilisers, pesticides, water, electricity, repair of equipment, etc.



Terms of Credit



1. Every loan agreement has an interest rate which the borrower must pay to the lender along with the repayment of the principal. 
2. Lenders also demand collateral (security) against loans. 
3. Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and given to the lender as a guarantee until the loan is repaid. 
4. If the borrower is unable to repay the loan then the lender has the right to sell it and get the money back. 
5. **Interest rate, collateral , documentation requirement and the mode of repayment,** together is called the terms of credit 



Formal and Informal Sector Loans



a. Formal sector loans

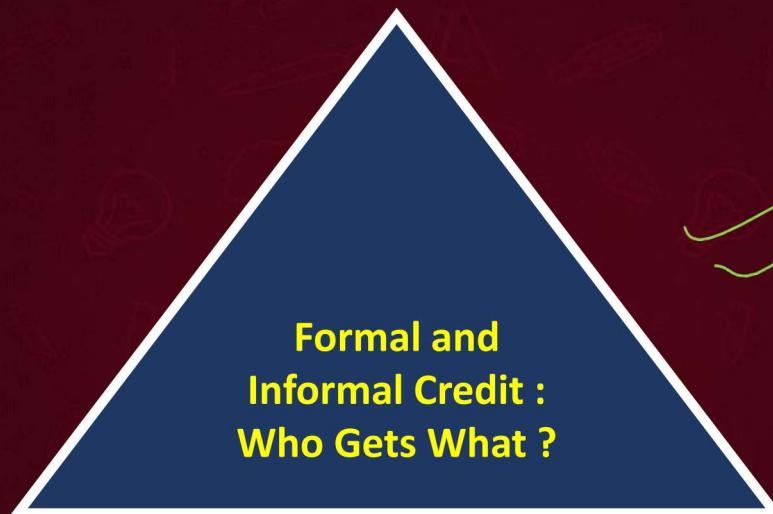
- o These are the loans from banks and cooperatives.
- o Need proper documents and collateral before lending
- o Loans are provided at Low rate of interest
- o Supervised by Reserve Bank of India (RBI)

b. Informal sector loans

- o The informal lenders include moneylenders, traders, employers, relatives and friends, etc.
- o There is no need of documents and collateral for loans
- o In this loans are provided at very High rate of interest
- o There is No organisation supervises these credit activities like RBI in formal sector



1. 85% of the loans taken by poor households in the urban areas are from informal sources.



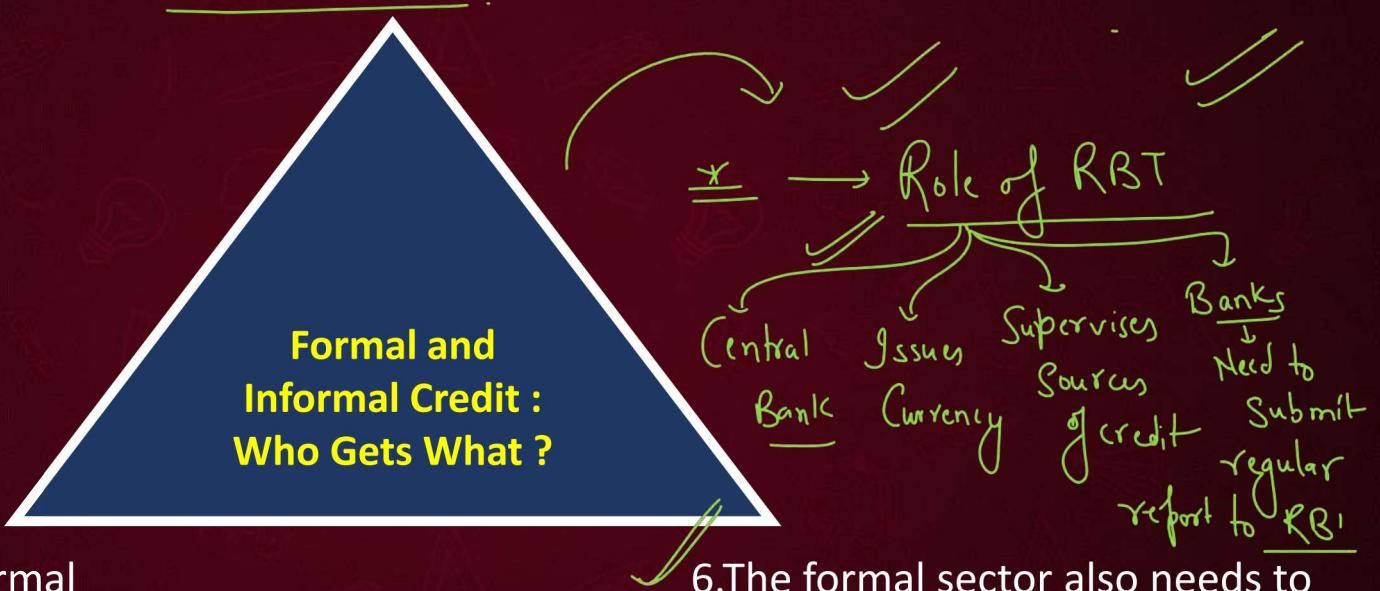
Rich

2. Urban households take only 10% of their loans are from informal sources, while 90% are from formal sources.

3. The formal sector still meets only about half of the total credit needs of the rural people. The remaining credit needs are met from informal sources.



4. Because of this reason, the banks and cooperatives must make provisions to provide loans at cheaper rates in rural areas, which would help people to set their own businesses, new industries, grow more crops, etc.



5. It is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.

6. The formal sector also needs to expand, and it should be accessible to everyone. Cheap and affordable credit is crucial for the development of the country





Self Help Groups



1. Poor households are majorly dependent on informal sector credits. This is because Banks are not available in rural areas. ✓
2. Banks require proper documentation and collateral for lending a loan. The absence of collateral prevents the poor from getting a loan. ✓
3. On the other hand, moneylenders willing to give loans to the poor at a much higher rate without any collateral. ✓
4. They keep no data of the transactions and trouble the poor. ✓
5. To overcome these problems Self Help Groups (SHGs) were created. ✓



Self Help Groups



1. SHGs are small groups of poor people which promote small savings among their members. o A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly Saving per member varies from Rs. 25 to Rs. 100 or more.
2. The group lends loans to its members at a comparatively low-interest rate than the moneylender without collateral.
3. If the group is regular in savings, it becomes eligible to receive a loan from banks.
4. Loan is sanctioned in the name of the group and is meant to create self-employment opportunities for the members.
5. Most of the important decisions regarding the savings and loan activities are taken by the group members the purpose, amount, interest to be charged, repayment schedule etc.



Self Help Groups



1. Any case of non-repayment of loan by any one member is followed up seriously by other members in the group.
2. Because of this feature, banks are willing to lend to the poor women when organised in SHGs, even though they have no collateral as such.
3. SHGs are the building blocks of organisation of the rural poor.
4. It helps women to become financially self-reliant

Any

when organised in

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Ques

What are the Terms
of Credit?