



Question 7: What are the reasons why the banks might not be willing to lend to certain borrowers?

Answer: The banks might not be willing to lend certain borrowers due to the following reasons:

- (a) Banks require proper documents and collateral as security against loans. Some persons fail to meet these requirements.
- (b) The borrowers who have not repaid previous loans, the banks might not be willing to lend them further.
- (c) The banks might not be willing to lend those entrepreneurs who are going to invest in the business with high risks.
- (d) One of the principle objectives of a bank is to earn more profits after meeting a number of expenses. For this purpose it has to adopt judicious loan and investment policies which ensure fair and stable return on the funds.

Question 8: In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

Answer: The Reserve Bank of India monitors the amount of money that banks loan out, and also the amount of cash balance maintained by them. It also ensures that banks give out loans not just to profiteering businesses but also to small cultivators, small scale industries and small borrowers. Periodically, banks are supposed to submit information to the RBI on the amounts lent, to whom and at what rates of interest.

This monitoring is necessary to ensure that equality is preserved in the financial sector, and that small industries are also given an outlet to grow. This is also done to make sure that banks do not loan out more money than they are supposed to, as this can lead to situations like the Great Depression of the 1930s in the USA, which greatly affected the world economy as well.

Question 9: Analyse the role of credit for development.

Answer: Credit plays a crucial role in a country's development. By sanctioning loans to developing industries and trade, banks provide them with the necessary aid for improvement. This leads to increased production, employment and profits. However, caution must be exercised in the case of high risks so that losses do not occur. This advantage of loans also needs to be manipulated and kept under an administrative hold because loans from the informal sector include high interest rates that may be more harmful than good. For this reason, it is important that the formal sector gives out more loans so that borrowers are not duped by moneylenders, and can ultimately contribute to national development.

Question 10: Manav needs a loan to set up a small business. On what basis will Manav decide whether to borrow from the bank or the moneylender? Discuss.

Answer: Manav will decide whether to borrow from the bank or the money lender on the basis of the following terms of credit:

- (a) rate of interest
- (b) requirements availability of collateral and documentation required by banker.
- (c) mode of repayment.

Depending on these factors and of course, easier terms of repayment, Manav has to decide whether he has to borrow from the bank or the moneylender.

Question 11: In India about 80 per cent of farmers are small farmers, who need for cultivation.

- (a) Why might banks be unwilling to lend to small farmers?
- (b) What are the other sources from which the small farmers can borrow?
- (c) Explain with an example how the terms of credit can be unfavorable for the small farmer.
- (d) Suggest some ways by which small farmers can get cheap credit.

Answer:

- (a) Banks might not be willing to lend to small farmers because they don't have collateral security to deposit in the bank. Some of these farmers are not in the position of paying loan, due to already existing loan.
- (b) The other sources of borrowing are from moneylenders, employer, self-help group, landlord, etc.
- (c) For example, if a person takes loan from his/her landlord on the basis of security of his/her land. At the end, he/she is not able to pay the loan then landlord can sell land and get his money back.
- (d) Small farmers can get cheap credit by the help of self-help group (SHGs) from bank and they can repay the loan easily after 3 or 4 years. The rate of interest is also low as compared to other sources of credit.

Question 12: Fill in the blanks:

- (i) Majority of the credit needs of the _____ households are met from informal sources.
- (ii) _____ costs of borrowing increase the debt-burden.
- (iii) _____ issues currency notes on behalf of the Central Government.
- (iv) Banks charge a higher interest rate on loans than what they offer on _____.
- (v) _____ is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

Answer: (i) Majority of the credit needs of the poor households are met from informal sources.

- (ii) High costs of borrowing increase the debt-burden.
- (iii) Reserve Bank of India issues currency notes on behalf of the Central Government.
- (iv) Banks charge a higher interest rate on loans than what they offer on deposits.
- (v) Collateral is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

Question 13: Choose the most appropriate answer.

- (i) In a SHG most of the decisions regarding savings and loan activities are taken by
 - (a) Bank.
 - (b) Members.
 - (c) Non-government organisation.
- (ii) Formal sources of credit does not include
 - (a) Banks.
 - (b) Cooperatives.
 - (c) Employers.

Answer:

- (i) (b)
- (ii) (c)

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