



Question 1: In situations with high risks, credit might create further problems for the borrower. Explain?

Answer: Whether a credit would be useful or not, will depend on a number of factors like - risks involved, whether there is some support against a loss, terms of credit etc. It is a fact that in situations with high risks, credit might create further problems for the borrower. For example, credit taken by farmers for cultivation might create problems for the farmer at some times. Crop production involves high costs on inputs such as HYV seeds, fertilizers, pesticides, irrigation etc. Farmers generally take loans at the beginning of the season and repay the loan after harvest. But the failure of the crop makes loan repayment impossible. Then in order to repay the loan sometimes, they become bound to sell part of their land. So, their situations become worse than before. The incidences of farmers' suicides especially in Maharashtra are the burning examples of this situation.

Thus, whether a credit would be useful or not, depends on the various risks involved in the situation.

Question 2: How does money solve the problem of double coincidence of wants? Explain with example of your own.

Answer: In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. By serving as a medium of exchanges, money removes the need for double coincidence of wants and the difficulties associated with the barter system. For example, it is no longer necessary for the farmer to look for a book publisher who will buy his cereals at the same time sell him books. All he has to do is find a buyer for his cereals. If he has exchanged his cereals for money, he can purchase any goods or service which he needs. This is because money acts as a medium of exchange.

Question 3: How do banks mediate between those who have surplus money and those who need money?

Answer: We know that banks accept the deposits from the people who have surplus money and also pay an interest on the deposits. But banks keep only a small portion (15 per cent in India) of their deposits as cash with themselves. This is kept as provision to pay the depositors who might come to withdraw money from their accounts in the bank on any day. They use the major portion of the deposits to extend loans to those who need money. In this way banks mediate between those who have surplus money and those who need money.

Question 4: Look at a 10 rupee note. What is written on top? Can you explain this statement?

"Reserve Bank of India" and "Guaranteed by the Government" are written on top.

Answer: In India, Reserve Bank of India issues currency notes on behalf of the central government. The statement means that the currency is authorized or guaranteed by the Central Government. That is, Indian law legalizes the use of rupee as a medium of payment that can not be refused in setting transaction in India.

Question 5: Why do we need to expand formal sources of credit in India?

Answer: We need to expand formal sources of credit in India for many reasons:

1. Compared to formal lenders, most of the informal lenders charge much higher interest rates on loans like 3% to 5% per month i.e. 36% a year.
2. Besides the high interest rate, informal lenders impose various other tough conditions. For example, they make the farmers promise to sell the crop to him at a low price. There is no such condition in formal sector.
3. Informal lenders do not treat well with the borrowers. On the other hand, there is no such situation in the formal sector.
4. The Reserve Bank of India supervises the functioning of formal sources of loans. In contrast, there is no organization which supervises the credit activities of lenders in the informal sector.
5. Loans taken by poor people from informal lenders sometimes, lead them to debt-trap because of high interest rate.
6. The formal sources of credit in India still meet only about half of the total credit needs of the rural people.

So, it is necessary that the formal sources of credit expand their lending especially in rural areas, so that the dependence on informal sources of credit reduces as this will also help in the development of the country.

Question 6: What is the basic idea behind the SHGs for the poor? Explain in your own words.

Answer: The basic idea behind the SHGs is to provide a financial resource for the poor through organizing the rural poor especially women, into small Self Help Groups. They also provide timely loans at a responsible interest rate without collateral.

Thus, the main objectives of the SHGs are:

1. To organize rural poor especially women into small Self Help Groups.
2. To collect savings of their members.
3. To provide loans without collateral.
4. To provide timely loans for a variety of purposes.
5. To provide loans at responsible rate of interest and easy terms.
6. Provide platform to discuss and act on a variety of social issues such as education, health, nutrition, domestic violence etc.

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