

# Class 10 Economics – Chapter 3: Money and Credit

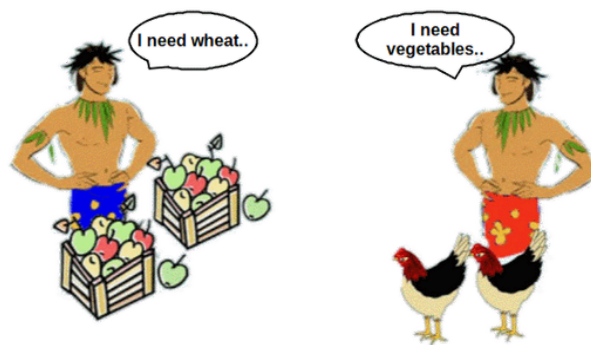
## ◆ 1. Money as a Medium of Exchange

Before money, people exchanged goods directly—this system is called **barter**.

 **Barter system** requires a **double coincidence of wants**: both people must want what the other offers.


✦ *Example:* A shoe maker wants wheat but the wheat farmer must also want shoes at the same time. Difficult!

✓ **Money solves this problem** by acting as a **medium of exchange**—you can sell goods/services and buy what you need using money.



✦ Add: (Fig. 1 – Cartoon on double coincidence of wants)

## 2. Modern Forms of Money

 Traditional Money:

- Used to be grains, cattle, later gold/silver coins

 Modern Money:

- **Currency notes and coins** issued by the government
- **Authorized by RBI** (Reserve Bank of India)
- Not made of precious metals, but accepted due to **government guarantee**

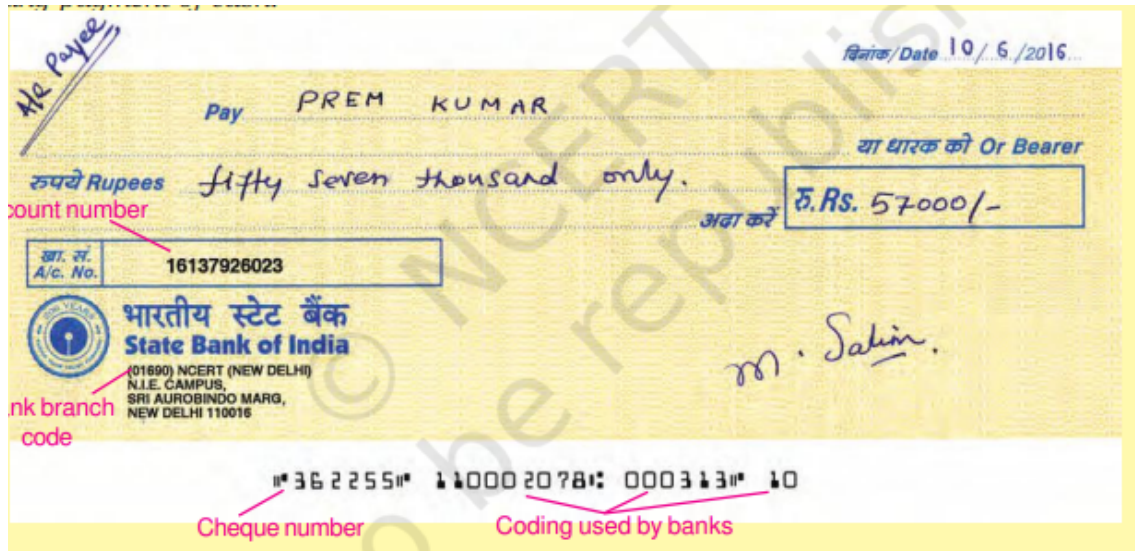


✦ Add: (Fig. 2 – Images of ancient and modern coins)

### 3. Deposits with Banks

- People deposit extra money in banks → **earn interest**
- These are called **demand deposits** (can withdraw anytime)
- Used as **money** for transactions

✦ **Key feature:** Can make payments using **cheques**, no cash needed.

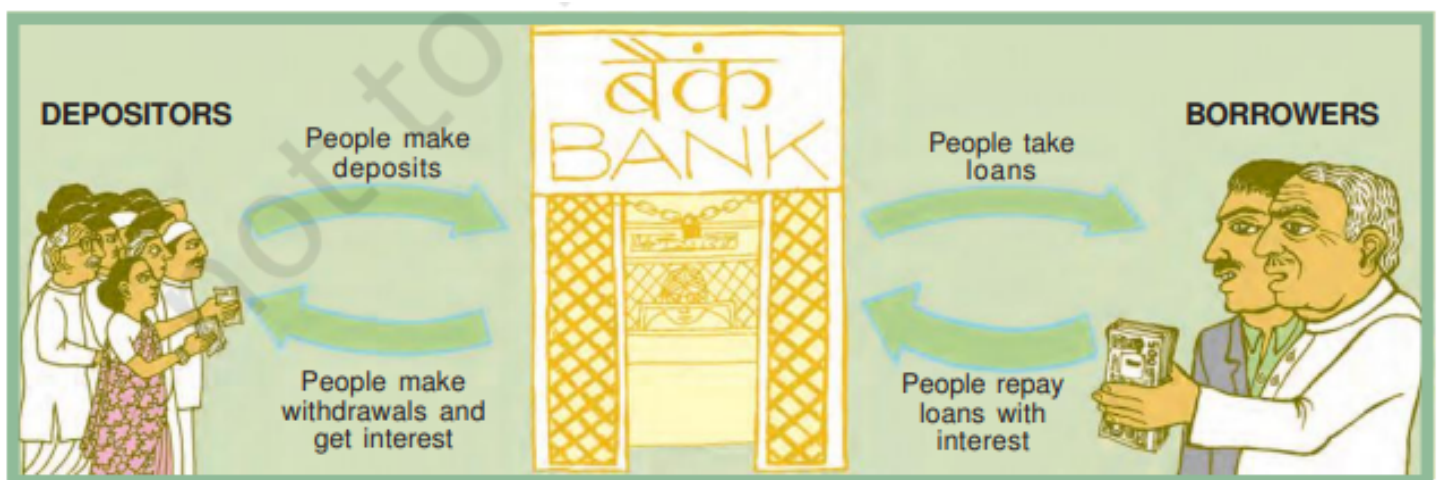


✦ Add: (Fig. 3 – Diagram: Bank deposits and cheque payments)

### 4. Loan Activities of Banks

- Banks **keep a small portion of deposits as cash** (about 15%)
- Remaining money is **used to give loans** to borrowers
- Banks earn profit by charging **higher interest on loans** than what they give on deposits

✦ Banks act as **mediators** between depositors and borrowers



✦ Add: (Fig. 4 – Flowchart: Deposits → Loans → Income for banks)

### 5. Credit – Meaning and Use

- ◆ What is Credit?

- Credit = **Loan**: Lender gives money now in return for **repayment later** (with interest)

### ✦ Two contrasting situations:

#### ✓ Case 1 – **Positive Credit Impact** (e.g., Salim the shoe-maker):

- Takes loan to buy raw materials → finishes production → earns profit → repays loan
- Outcome: Better off than before

#### ✗ Case 2 – **Debt Trap** (e.g., Swapna the farmer):

- Takes loan → crop fails → cannot repay → takes more loans → ends up losing land
- Outcome: Worse off than before

## 📄 6. Terms of Credit

Loan agreements include:

Term	Meaning
<b>Interest rate</b>	% borrower must pay extra
<b>Collateral</b>	Asset pledged for loan (land, house, gold)
<b>Documentation</b>	Proof of income, identity
<b>Mode of repayment</b>	How & when the loan will be paid

### *A House Loan*

*Megha has taken a loan of Rs 5 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in 10 years in monthly instalments. Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest.*

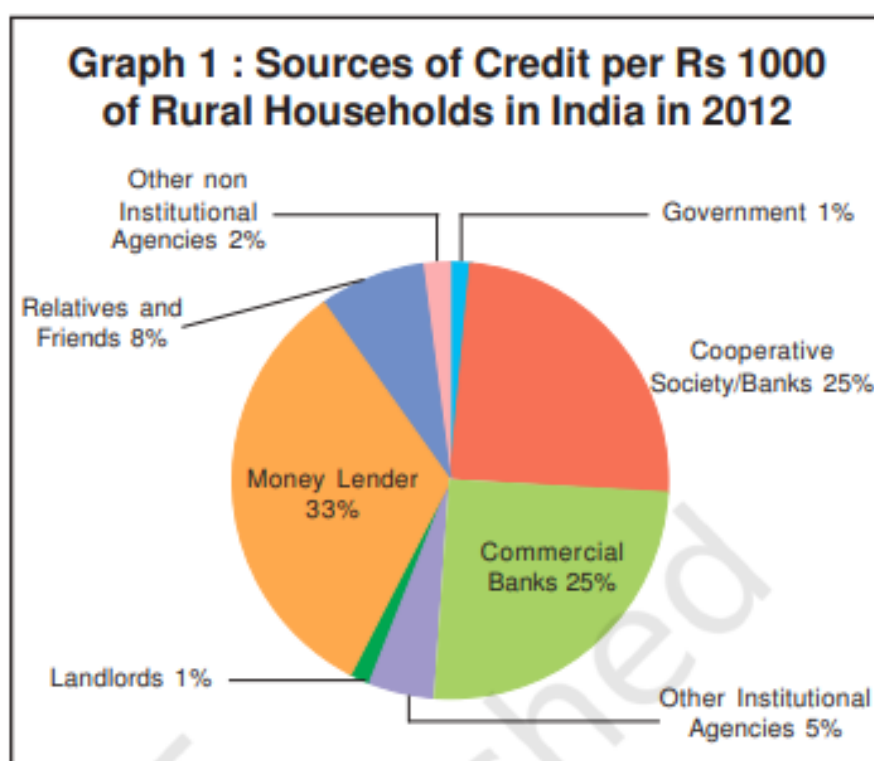
✦ Add: (Fig. 6 – Example: Megha's home loan terms)

## 🏠 7. Types of Credit Arrangements (Example: Village Sonpur)

Borrower	Source	Interest Rate	Collateral?	Credit Use
Shyamal (small farmer)	Trader	3% per month	No	Crop inputs
Arun (big farmer)	Bank	8.5% per annum	Yes	Cultivation
Rama (landless worker)	Landowner	5% per month	No	Daily needs

## 8. Formal and Informal Credit Sources

Type	Includes	Features
<b>Formal</b>	Banks, cooperatives	Regulated by RBI, lower interest
<b>Informal</b>	Moneylenders, traders, etc.	High interest, no regulation

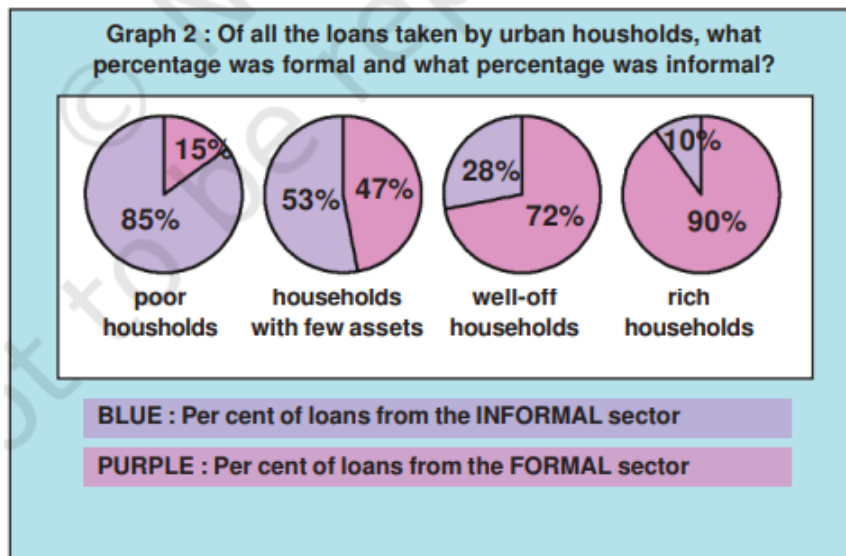


♦ Add: (Fig. 8 – Pie chart: Credit sources in rural India)



## ● Need to Expand Formal Credit:

- Informal loans = High interest → Less income for poor
- Poor remain in **debt traps**
- Banks & cooperatives should **lend more**, especially in villages



♥ Add: (Fig. 9 – Graph: Rich vs poor access to formal loans)

## 👥 9. Self Help Groups (SHGs) – Loans for the Poor

- **15–20 women** form a group, save regularly, lend to each other
- After a year, can **take a bank loan** in the group's name
- Helps:
  - Avoid collateral
  - Get cheap loans
  - Become self-reliant

♥ Example: Loans to start small business, buy cattle, repay old debt



✚ Add: (Fig. 10 – Photo of SHG in Gujarat)



## CBSE Question Trends

Question Type	Common Topics
1 mark	Define credit / demand deposits
3 marks	Compare formal & informal loans / role of banks
5 marks	Credit with good & bad outcomes / SHG features
Data-based	Graph questions on formal–informal credit share