10th Standard

Social Science- Economics

Money and Credit

Money:

Money acts as an intermediate in the exchange process & it is called medium of exchange. In many of our day to day transactions, goods are being bought & sold with the use of money.

The reason as to why transactions are made in money is that, a person holding money can easily exchange it for any commodity or service that he or she wants.

Double coincidence of wants:

When in the exchange, both parties agree to sell and buy each others commodities it is called double coincidence of wants. In the barter system double coincidence of wants is an essential feature.

Demand Deposits in Bank:

Deposits in the bank account that can be withdrawn on demand. People need only some currency for their day to day needs. For instance workers who receive their salaries at the end of each month, have some extra cash. They deposit it with the banks by opening a bank account in their name. Bank accept the deposits and also pay an interest rate on the deposits.

Cheque:

Paper instructing the bank to pay a specific amount from a person's account to the person in whose name the cheque is drawn.

Reserve Bank of India:

It is the central bank of India which controls the monetary policy of the country. Reserve Bank of India supervises the activities of formal sector and keep the track of their activities but there is no one supervise the functioning of informal sector. Periodically banks have to submit information to the RBI on how much they are lending and to whom, at what interest rate, etc.

Credit:

The activity of borrowing and lending money between two parties.

Collateral:

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. Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing.

Terms of Credit:

Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit. 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.

Formal sector:

Includes banks & cooperatives; RBI supervises the functioning of formal sources of loans. To see that the bank maintains a minimum cash balance and monitors that these banks give loans not just to profit-making business and traders but also to small cultivators , small scale industries , to small borrowers etc. periodically banks have to submit information to RBI of their activities.

Informal sector:

Includes money lenders, traders, employers, relatives & friends etc. There is no one to supervise their credit activities. They can charge whatever rate of interest. There is no one to stop them from using unfair means to get their money back.

Self Help Groups (SHG):

A typical SHG has 15-20 members usually belonging to a neighborhood, who meet and save regularly. Saving per month varies from 25-100 rupees or more depending upon the ability of the people. Members take small loans from group itself to meet their needs.

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