

## Very Short Answer Questions

**Q. 1. Why are transactions made in money?**

**Ans.** A person holding money can easily exchange it for any commodity or service that he or she might want.

**Q. 2. How is money beneficial in transactions? [CBSE (F) 2017]**

**Ans.** Money beneficial in transactions

It eliminates the need for double coincidence of wants. It acts as a medium of exchange.

**Q. 3. What is 'double coincidence of wants' ?**

**Ans.** What a person desires to sell is exactly what the other wishes to buy.

**Q. 4. What is barter system?**

**Ans.** When goods are directly exchanged for goods and there is no use of money, it is called barter system.

**Q. 5. How does the use of money make it easier to exchange things? Give an example.**

**Ans.** A person holding money can easily exchange it for any commodity or service that he or she might want.

**Example :-** The shoe manufacturer will first exchange shoes that he has produced for money and then exchange the money for wheat.

Any other relevant example.

**Q. 6. Why one cannot refuse a payment made in rupees in India? [CBSE (Delhi) 2016]**

**Ans.** One cannot refuse a payment made in rupees in India: Because it is accepted as a medium of exchange. The currency is authorized by the government of the country.

**Q. 7. Highlight the inherent problem in double coincidence of wants.**  
**[CBSE (Delhi) 2017]**

**Ans.** The inherent problem in double coincidence of wants is that both parties have to agree to sell and buy each other's commodities.

**Q. 8. What was used as money in early ages in India?**

**Ans.** In the very early ages, Indians used grains and cattle as money.

**Q. 9. Which metals were used for making coins in India in later stages?**

**Ans.** Gold, Copper, Silver coins were used in later stages for making coins in India.

**Q. 10. What does modern form of money include?**

**Ans.** Modern form of money includes currency—that is paper notes and coins.

**Q. 11. Does modern currency have any use of its own?**

**Ans.** Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. And unlike grain and cattle, they are neither of everyday use. The modern currency is without any use of its own.

**Q. 12. Why is modern currency accepted as a medium of exchange?**

**Ans.** It is accepted as a medium of exchange because the currency is authorised by the government of the country.

**Q. 13. In India, who is authorised to issue notes and currency?**

**Ans.** In India, 'Reserve Bank of India' issues currency notes on behalf of the central government.

**Q. 14. What are 'demand deposits' ?**

**Ans.** People deposit their money in the bank as it earns interest. Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

**Q. 15. What is a 'cheque' ? [CBSE (F) 2017]**

**Ans.** A cheque is a paper, instructing the bank to pay a specific amount from the person's account to the person on whose name the cheque has been issued.

**Q. 16. What do the banks do with the deposits which they accept from the public?**

**Ans. (i)** Banks keep only a small proportion of their deposits as cash with themselves.

**(ii)** Major portion of the money deposits are used to extend loans.

**Q. 17. How do banks act as a mediator?**

**Ans.** Banks mediate between those who have surplus funds (depositors) and those who are in need of these funds (the borrowers).

**Q. 18. Why is it difficult for poor to get loan from Banks? [CBSE (AI) 2017]**

**Ans.** Absence of Collateral is one of the major reasons which prevent the poor from getting bank loans.

**Q. 19. What is the main source of income of the banks, if they forward the depositor's money to the lender?**

**Ans.** Banks charge a higher rate of interest on 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.

**Q. 20. What is 'credit' ?**

**Ans.** Credit (loan) refers to an agreement in which the lender supplies the borrowers with money, goods or services in return for the promise of future payment.

**Q. 21. What do the farmers in rural areas take loans for?**

**Ans.** Farmers take loans for crop production which involves considerable costs on seeds, fertilizers, pesticides, water, electricity, repair of equipment, etc.

**Q. 22. What is a 'debt trap' ?**

**Ans.** Credit in some cases pushes the borrower into a situation from which recovery is very painful.

**Q. 23. What is 'credit' ? What is 'collateral' ?**

**Ans.** 'Collateral' is an asset that the borrower owns (such as land, building, vehicle, live stocks, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

**Q. 24. What are the main 'terms of credit' ?**

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

**Q. 25. What are informal sectors of loan?**

**Ans.** Informal sectors include moneylenders, traders, employers, relatives and friends, etc.

**Q. 26. What are the formal sectors of loan?**

**Ans.** Formal sectors of loan include all the banks and cooperatives.

**Q. 27. Why are most of the poor households deprived from the formal sector of loans?**

**[CBSE (AI) 2016]**

**Ans.** Most of the poor households are deprived from the formal sector of loans because of:

(i) Lack of collateral.

(ii) They are illiterate.

(iii) Cannot fulfill the formalities of the formal sector of loans.

**Q. 28. What report is submitted periodically by all the banks to RBI?**

**Ans.** Periodically, banks have to submit information to the RBI on how much they are lending, to whom and at what rate.

**Q. 29. Why do informal sectors charge interest rate at their own risks?**

**Ans.** There is no organisation which supervises the credit activities of lenders in the informal sector. Therefore, they lend at whatever interest rate they choose. No one stops them from using unfair means to get their money back.

**Q. 30. Why do banks and cooperatives need to lend more?**

**Ans.** Banks and cooperative societies need to lend more. This would lead to higher incomes and many more could then borrow cheaply for a variety of needs. Cheap and affordable credit is crucial for the country's development.

**Q. 31. Why should credit at reasonable rates be available to all?**

**Ans.** At present, it is the rich households who receive formal credit whereas the poor have to depend on the informal sources. It is important that the formal

credit is distributed more equally so that the poor can benefit from the cheaper loans.

**Q. 32. What prevents the poor from getting bank loans?**

**Ans.** Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.

**Q. 33. Prove with an argument that there is a great need to expand formal sources of credit in rural India. [CBSE (AI) 2016]**

**Ans.** To expand formal sources of credit in rural India, dependence on informal sources of credit has to be reduced.

**Q. 34. What are SHGs?**

**Ans.** They are Self Help Groups, who provide mutual support to each other.

**Q. 35. For what purposes do SHGs give loans to its members?**

**Ans.** Small loans are provided to the members for releasing mortgaged land, for meeting working capital needs like buying seeds, fertilizers, raw materials like bamboo and cloth for housing, materials for acquiring assets like sewing machines, handloom, cattle, etc.

**Q. 36. Give any two advantages of SHGs.**

**Ans. (i)** SHGs help borrowers overcome the problem of collateral.

**(ii)** They can get timely loans for a variety of purposes and at reasonable rates.

**Q. 37. How does the use of money make it easier to exchange things?**

**Ans.** In an economy where money is in use, it eliminates the need for double coincidence of wants by providing the crucial intermediate step.

**Q. 38. What do you mean by the term 'collateral' ? [CBSE Sample Paper 2017]**

**Ans.** It is an asset that the borrower owns and uses this guarantee to a lender until the loan is repaid.

**Q. 39. Recognize the situation when both the parties in a barter economy have to agree to sell and buy each other's commodities? What is it called?**  
[CBSE Sample Paper 2016]

**Ans.** This is known as double coincidence of wants.

**Q. 40. Amit is using his money to buy assets like house, commercial land and machines. Write what is he actually doing?** [CBSE Sample Paper 2016]

**Ans.** He is investing his money with a hope of earning profits from these assets.

**Q. 41. How do the deposits with banks become their source of income?**  
[CBSE (Delhi) 2016]

**Ans.** The Source of income of bank: Banks charge higher interest rate on loans than what they offer on deposits. The difference of interest is the main source of income of banks.

**Q. 42. Compare formal sector loans with informal sector of loans regarding interest only.** [CBSE (Delhi) 2016]

**Ans.** Comparison of formal sector loans with informal: Most of the informal lenders charge a much higher interest on loans than the formal sector loans.

**Q. 43. Why is the supervision of the functioning of formal sources of loans necessary?**  
[CBSE (AI) 2016]

**Ans.** Supervision of the functioning of formal sources of loans is necessary because—Banks have to submit information to the RBI on how much they are lending to when they are lending and what interest rate, etc.

**Q. 44. How does money eliminate the need for double coincidence of wants?**

**[CBSE (F) 2016]**

**Ans.** If you have money in your pocket, you can purchase anything at any time as you wish.



## Short Answer Questions

**Q. 1. Give an example to show that double coincidence of wants is necessary in a barter system.**

**Ans.** A shoe manufacturer wants to sell shoes in the market and buy wheat. The shoe manufacturer will first exchange shoes that he had produced for money, and then exchange the money for wheat. Imagine how difficult it would be if the shoe manufacturer had to directly exchange shoes for wheat without using money. He would have to look for a wheat growing farmer, who not only wants to sell wheat but also wants to buy the shoes in exchange. That is, both parties have to agree to sell and buy each other's commodities. This is known as double coincidence of wants.

**Q. 2. How is modern form of currency accepted as a medium of exchange?**

Or

**Why is currency accepted as a medium of exchange?**

**Ans.** Modern forms of money include currency—paper notes and coins.

Modern currency is not made of precious metals such as gold, silver and copper.

The modern currency is without any use of its own.

In India, Reserve Bank of India issues currency notes on behalf of the Central government.

As per the Indian law, no other individual or organisation is allowed to issue currency.

No individual in India can legally refuse a payment made in rupees.

**Q. 3. “Banks are efficient medium of exchange.” Support the statement with arguments.**

**[CBSE (Delhi) 2017]**

**Ans.** Banks are efficient medium of exchange:

**(i)** Demand deposits share the essential features of money.

**(ii)** The facility of cheque against demand deposit makes it possible to directly settle payment without the use of cash.

**(iii)** Demand deposits are accepted widely as a means of payment.

**Q. 4. What are ‘demand deposits’?**

**Ans.** Workers who receive their salaries at the end of each month have extra cash at the beginning of the month.

This extra cash is deposited with the bank by opening a bank account in their name.

Banks accept the deposits and also pay an interest rate on the deposits.

In this way, people's money is safe with the banks and it earns an interest as well.

People also have the provision to withdraw the money as and when they require.

Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

**Q. 5. How are demand deposits accepted as a means of payment?**

**Ans. (i)** Demand deposits offer another interesting facility. It helps in making the payment in cheque.

**(ii)** A cheque is a paper instructing the bank to pay a specific amount from the person's account to the other person or to the account holder.

**(iii)** Thus, we see that demand deposits share the essential features of money.

**(iv)** The facility of Cheques against demand deposits makes settlement of payments possible without using cash.

**(v)** Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.

**Q. 6. State three disadvantages of the barter system.**

**Ans. (i)** In a barter system, double coincidence of wants is required.

**(ii)** Here, the person is required to sell only what the other wishes to buy.

**(iii)** If both parties do not agree, the goods cannot be exchanged for goods.

**Q. 7. Illustrate with examples the role of 'loan' in 'businesses'. [CBSE (Delhi) 2017]**

**Ans.** Role of Loan

**(i)** Loan is a crucial element in economic life and plays a vital and positive role.

**(ii)** It helps to increase earnings. Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses of production, complete production on time, and thereby increase his earnings. Credit therefore plays a vital and positive role in this situation.

**(iii)** It makes a person economically better off than before.

**(iv)** It helps the poor and needy at the time of crisis.

**(v)** It helps the person to meet the ongoing expenses of production and complete production on time.

(vi) In another situation, because of the crop failure, loan pushes the person into a debt trap.

(vii) Examples of Salim and Lakshmi could be given

**Q. 8. Why are terms of credit required for a loan or credit?**

**Ans. (i)** Terms of credit are required so that the borrower knows the conditions to take the loan.

**(ii)** The collateral, in the form of security or guarantee, is given to the lender until the loan is repaid.

**(iii)** If the borrower fails to repay the loan, the lender has all the rights to sell the assets or collateral to obtain the payment.

**Q. 9. Why does the formal or informal sector asks for a collateral?**

**Ans.** Every loan agreement specifies an interest rate which the borrower must pay to the lender along with the repayment of the principal.

In addition, lenders may demand a collateral or an asset that the borrower owns to use it as a guarantee until he repays the loan.

Interest rate, collateral and documentation requirement and the mode of repayment are the terms of credit required for formal or informal sectors for loans.

**Q. 10. How are cooperatives functioning in the rural areas to solve the problem of credit?**

**Ans.** Besides banks, the other major source of cheap credit in rural areas are the cooperatives.

Members of a cooperative, pool their resources for cooperation in certain areas.

Cooperatives form members, who accept deposits from its members. With these deposits as collateral, the cooperative obtains a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

**Q. 11. Identify transactions involving money in our day-to-day life.**

**Ans.** There are several transactions involving money in any single day.

In many of these transactions, goods are being bought and sold with the use of money. It eliminates the need for double coincidence of wants.

In some of these transactions, services are being exchanged with money.

For some, there might not be any actual transfer of money taking place now but a promise to pay money later.

**Q. 12. Why are transactions made in money?**

**Ans.** A person holding money can easily exchange it for any commodity or service that he or she might want.

Thus, everyone prefers to receive payments in money and then exchange the money for things that they want.

Take the case of a shoe manufacturer. He wants to sell shoe in the market and buy wheat. The shoe manufacturer will first exchange shoe that he has produced for money and then exchange the money for wheat.

**Q. 13. State any three advantages of an ATM.**

**Ans. (i)** ATM is a provision called the Automated Teller Machine.

**(ii)** In case of an ATM, direct interaction with the bank is not required.

**(iii)** Money can be withdrawn from the ATM during the entire twenty-four hours in a day, whereas banks close their public dealings at a particular time, binding the depositor to come within that stipulated period.

**Q. 14. Explain any three loan activities of banks in India. [CBSE (AI) 2017]**

**Ans.** Loan activities of Banks in India:

**(i)** Banks use the major portion of the deposits to extend loans.

**(ii)** Banks make use of the deposits to meet the loan requirements of the people.

**(iii)** Banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers).

**(iv)** Banks charge a higher interest rate on loans than what it offers on deposits.

**Q. 15. Which objects were used as money?**

**Ans. (i)** Before the introduction of coins, a variety of objects were used as money. For example, since the very early ages, Indians used grains and cattle as money.

**(ii)** Thereafter, came the use of metallic coins—a phase which continued well into the last century.

**Q. 16. How do farmers get into debt trap?**

**Ans.** Farmers usually take crop loans at the beginning of the season and repay the loan after harvest.

Sometimes, the failure of the crop makes loan repayment impossible.

So, the farmers have to sell a part of their land to repay the loan. Credit in such a condition pushes the borrowers into a situation from which recovery is painful and they get into the debt trap.

**Q. 17. Self-help Groups support has brought about a revolutionary change in the rural sector. [CBSE Sample Paper 2017]**

**Ans. (i)** The idea is to organize rural poor, in particular women, into small Self Help Groups (SHGs) and pool their savings. Members can take small loans from the group itself to meet their needs. The group charges interest on these loans but this is still less than what the moneylender charges.

**(ii)** If the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of the group and is meant to create self – employment opportunities for the members. The SHG is responsible for repayment of the loan, hence, banks get ready to give loans without collateral.

**(iii)** Self-help, self-reliance and creating a support system and platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence etc.

**Q. 18. Why do we need to expand formal sources of credit in India? Give three reasons. [CBSE Sample Paper 2017]**

**Ans. (i)** The cost of informal loans is much higher and often leads to a debt trap. Also, people who might wish to start a new enterprise by borrowing may not do so because of the high cost of borrowing in such a case.

**(ii)** Most loans from informal lenders carry a very high interest rate and do little to increase the income of the borrowers. Thus, it is necessary that banks and cooperatives increase their lending particularly in the rural areas, so that the dependence of the poor on informal sources of credit reduces.

**(iii)** It is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.

**Q. 19. Dhananjay is a government employee and belongs to a rich household whereas Raju is a construction worker and comes from a poor rural household. Both are in need and wish to take loan. Create a list of arguments explaining who between the two would successfully be able to arrange money from a formal source. Why?**

**[CBSE Sample Paper 2016]**

**Ans.** Dhananjay will be able to get loan from a formal source.

**Arguments:**

Banks are not present everywhere in rural India. Even when they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources.

Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.

Informal lenders such as moneylenders, on the other hand, know the borrowers personally and hence are often willing to give a loan without collateral.

**Q. 20. Explain the values which a borrower should observe for the proper use of loan taken. [CBSE (Comptt.) 2016]**

**Ans.** Borrower should observe the following for the proper use of loan taken:

- (i) Proper planning of both for borrowing and spending of loan amount.
- (ii) Use the loan for the purpose for which it has been borrowed.
- (iii) Follow the terms and conditions of the credit.
- (iv) To develop consciousness to repay the loan on time.

**Q. 21. “The credit activities of the informal sector should be discouraged.” Support the statement with arguments. [CBSE (Delhi) 2016]**

**Ans.** The credit activities of the informal sector should be discouraged because:

- (i) 85% of loans taken by the poor households in the urban areas are from informal sources.
- (ii) Informal lenders charge very high interest on their loans.
- (iii) There are no boundaries and restrictions.
- (iv) Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.
- (v) In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower.
- (vi) This could lead to increasing debt and debt trap, therefore the credit activities of the informal sector should be discouraged.

**Q. 22. “Deposits with the banks are beneficial to the depositors as well as to the nation”. Examine the statement. [CBSE (AI) 2016]**

**Ans.** Deposits with the banks are beneficial to the depositors as well as to the nation.

#### **Benefits to the Depositors**

- (i) Banks accept the deposits and pay interest to the depositor.
- (ii) People’s money is safe with the banks.
- (iii) People can withdraw the money as and when they require.

## **Benefits to the Nation**

- (i)** Banks use money of the depositor to afford loans.
- (ii)** There is a huge demand for loans for various economic activities.
- (iii)** Banks mediate between those who have surplus funds and those who are in need of these funds. Thus it helps in the economic development of the nation.

**Q. 23. Credit has its own unique role for development'. Justify the statement with arguments. [CBSE (AI) 2016]**

**OR**

**Describe the vital and positive role of credit. [CBSE (Delhi) 2016]**

**Ans.** "Credit has its own unique role for development"

- (i)** Credit helps to increase earning and therefore the person is better off than before. For example, as in (Salim's case)
- (ii)** Credit helps to earn money as well as capital for the future.
- (iii)** Credit helps in the development of infrastructure of the society that leads to the overall development.

**Q. 24. How is money transferred from one bank account to another bank account? Explain with an example. [CBSE (F) 2016]**

**Ans.** Money Transfer from one bank account to another bank account:

If a person has to make a payment to his or her friend and writes a cheque for a specific amount, this means that the person instructs his bank to pay this amount to his friend. His friend takes this cheque and deposit in his account in the bank. This said amount is transferred from one bank account to another bank account.

**Q. 25. How is the concept of Self Help Groups important for poor people? Give your view point. [CBSE (F) 2016]**

**Ans.** Self Help Group

- (i)** SHGs help in pooling the savings of the members, who are poor people.
- (ii)** Members can get timely loans for a variety of purposes.
- (iii)** They get loan at a reasonable rate of interest.
- (iv)** It helps borrowers to overcome the problem of lack of collateral and documentation.
- (v)** It saves them from exploitation of the money lenders.
- (vi)** This interest income becomes an extra source of income of the members.

## Long Answer Questions

**Q. 1. Review any three merits and any two demerits of 'formal sector of credit' in India.**

**[CBSE (F) 2016]**

**Ans.** Merits and Demerits of Formal Sectors of Credit

### **Merits**

- (i) Helps to meet the working capital needs of production.
- (ii) Helps in ongoing expenses of production.
- (iii) Helps in completing production on time.
- (iv) Helps in increasing earnings.
- (v) Low interest rates.
- (vi) Easy access of loans to small cultivators and small scale industries.

### **Demerits**

- (i) Difficulty in obtaining loans.
- (ii) Collateral issues.
- (iii) Documentation could be a problematic issue for few.
- (iv) Lack of credibility in rural areas.

**Q. 2. Why are poor households still dependent on informal sources of credit?**

**OR**

**“Poor households still depend on informal sources of credit.” Support the statement with examples. [CBSE (F) 2016]**

**Ans. Reasons:**

Banks are not present everywhere in rural India.

Even if they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources.

Bank loans require proper documents and a collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.

Informal lenders like moneylenders know the borrower personally and hence, are often willing to give a loan without a collateral.



The borrowers can, if necessary, approach the moneylender even without repaying their earlier loans.

However, the moneylenders charge very high rates of interest, keep no records of the transactions and harass the poor borrowers.

**Q. 3. What are the advantages of SHGs?**

**Ans. Advantages of SHGs:**

- (i) The SHGs help the borrower to overcome the problem of lack of collateral.
- (ii) They can get timely loans for a variety of purposes and at a reasonable interest rate.
- (iii) SHGs are the building blocks of organisation of the rural poor.
- (iv) Not only do they help women become financially self-reliant, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

**Q. 4. What are the differences between formal and informal sources of credit?**

**Ans. Formal sources:**

- (i) These sources of credit are registered by the government and have to follow its rules and regulations.
- (ii) RBI supervises the functioning of formal sources of credit.
- (iii) They generally charge lower rates of interest.
- (iv) Their main motive is social welfare.

**Example:** Banks and cooperatives.

**Informal sources:**

- (i) These include those small and scattered units which are largely outside the control of the government.
- (ii) There is no organisation which supervises the credit activities.
- (iii) They charge much higher rates of interest.
- (iv) Their main motive is profit-making.

**Example:** Moneylenders, traders, employees, relatives and friends, etc.

**Q. 5. What is a cheque? How does it replace currency?**

**Ans.** 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 drawn.

(i) The facility of cheque against demand deposits makes it possible to directly settle the payments without the use of withdrawal.

(ii) For payment through cheque, the payer who has an account with the bank, makes out a cheque of a specific amount.

(iii) The money is transferred from one bank account to another in a couple of days. The transaction is complete without any payment of cash.

**Q. 6. What is credit? How can credit be both an asset as well as a debt trap?**

**Ans.** Credit refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.

(i) **Example of credit as an asset:** During the festival season, a shoe manufacturer has received an order of making shoes in bulk, within a month's time. To complete production, he hired some extra workers and has to purchase the raw materials. He asks the supplier to supply leather now and promises to pay him later. Then he took some advance payment from the trader. By the end of the month, he is able to deliver the order, make a good profit and repay the money he had borrowed.

(ii) **Example of credit as debt trap:** A farmer picks up the loan from a moneylender to meet the expenses of cultivation. But unfortunately the crop is hit by the pests and fails. So, he is unable to repay the loan and debt grows larger with interest. Next year, he picks up a fresh loan and is able to have a normal crop that year. But earnings are not enough to pay the earlier debt. So, he is caught in a debt trap. He can repay the loan, only after selling a part of the land.

In shoemaker's case, credit plays a vital and positive role, whereas in farmer's case credit pushes the borrower into a situation from which recovery is very painful.

**Q. 7. What are the terms of credit?**

**Ans. (i)** Every loan agreement specifies an interest rate which the borrower must pay to the lender along with repayment of the principal.

(ii) In addition, lender may demand collateral, i.e., an asset that the borrower owns and uses this as a guarantee until the loan is repaid.

(iii) If the borrower fails to repay the loan, the lender has the right to sell the collateral to obtain payment.

(iv) Terms of credit comprise interest rate, collateral and documentation requirement, and the mode of repayment.

(v) 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.

**Q. 8. "The rich households are availing cheap credit from formal lenders whereas the poor households have to pay a heavy price for borrowing." Comment.**

**Ans.** 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.

Most loans from informal lenders carry a very high interest rate and do little to increase the income of the borrowers.

Thus, it is necessary that banks and cooperatives increase their lending particularly in the rural areas, so that the dependence on informal sources of credit reduces.

While formal sector loans need to expand, it is also necessary that everyone receives these loans.

At present, it is the rich households who receive formal credit whereas the poor have to depend on the informal sources.

**Q. 9. Who takes the important decisions of SHGs and why?**

**OR**

**“Self Help Groups’ help borrowers to overcome the problem of lack of collateral.” Examine the statement. [CBSE (Delhi) 2016]**

**Ans.** Most of the important decisions regarding the savings and loan activities are taken by the group members.

The group decides as regards the loans to be granted—the purpose, amount, interest to be charged, repayment schedule, etc.

It is the group which is responsible for the repayment of the loan.

In case of default by any one member, it is followed up seriously by other members in the group.

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.

**Q. 10. Write a note on the success story of ‘Grameen Bank of Bangladesh’.**

**Ans.** Grameen Bank of Bangladesh was founded by Prof. Muhammad Yunus (a recipient of Nobel Peace Prize for the year 2006) in year 1976. Over the last 42 years i.e., from 1976 to 2017, the operations of the bank spread to a large area of Bangladesh. The bank was started with a very small project and in year 2005, it spread across 40,000 villages with 6 million borrowers in various parts of Bangladesh. Most of the borrowers of this bank are women and belong to poor sections of society. These poor women have started ‘self-employment’ projects by taking credit from this Grameen bank. This credit has positive impact on these women as they started a gainful employment, which helped them not only to repay their loan but also to earn a good living for themselves and their family.

**Q. 11. How can the formal sector loans be made beneficial for poor farmers and workers? Suggest any five measures. [CBSE (AI) 2016]**

**Ans.** Formal sector loans can be made beneficial for poor farmers and workers in the following ways:

- (i)** It is required to create awareness among farmers about formal sector loans.
- (ii)** Process of providing loans should be made easier.
- (iii)** It should be simple, fast and timely.
- (iv)** More number of Nationalised banks/cooperative banks should be based in rural sector.
- (v)** Banks and cooperatives should increase facility of providing loans so that dependence on informal sources of credit reduces.
- (vi)** The benefits of loans should be extended to poor farmer and small scale Industries.
- (vii)** While formal sector loans need to expand, it is also necessary that everyone receives these loans.

## Hots (Higher Order Thinking Skills)

**Q. 1. How are deposits with the bank beneficial for individual as well as for the nation? Explain with examples.**

**Ans.** Banks accept deposits and also pay an interest rate on the deposits.

In this way, people's money is safe with the banks and it earns an interest as well.

People also have the provision to withdraw the money as and when they require.

Banks keep only a small portion of their deposits as cash.

Then they use the major portion of the deposits to extend loans.

There is a huge demand for loans for various economic activities. Banks make use of the deposits to meet the loan requirements of the people.

This creates employment and income to the people of a nation and contributes to national development.

**Q. 2. "Focuses of currency have undergone several changes since early times." Elucidate.**

**Ans.** Before the introduction of coins, a variety of objects was used as money.

For example, since the very early ages, Indians used grains and cattle as money.

Thereafter, came the use of metallic coins — gold, silver, copper coins — a phase which continued well into the last century.

Modern forms of money include currency — paper notes and coins.

Modern currency is not made of precious metal, it is without any use of its own.

**Q. 3. Why is it necessary that banks and co-operatives increase their lending in rural areas? Explain. [CBSE (Comptt.) 2016]**

**Ans.** Banks and cooperatives should increase their lending in rural areas:

(i) Formal sector charges low rate of interest.

(ii) Lack of formal sources of credit in villages.

(iii) Villagers mainly depend on informal sector.

(iv) They charge high rate of interest.

(v) Borrowers come under debt trap.

(vi) Therefore there is a need to expand formal sectors so that everyone receives these loans.

#### Q. 4. How do formal and informal sources of credit differ from each other?

Ans.

Formal Sector Loans	Informal Sector Loans
(i) Comparatively rate of interest charge is lower.	(i) Higher rate of interest is charged.
(ii) Collateral is must for getting loan from a formal sector.	(ii) They are ready to give loans without any collateral too.
(iii) RBI supervises them.	(iii) There is no organisation to supervise them.
(iv) Rich urban households depend on formal sector.	(iv) Poor households depend on informal sector.
(v) Example: Banks and Cooperatives.	(v) Example: Moneylender, traders, friends, retailers, etc.
(vi) Organised banking sector is systematic in its functioning.	(vi) Unorganised sector is not so systematic and often indulges in malpractices to exploit the customers.
(vii) Organised financial intermediaries maintain proper books of accounts. Their books of accounts are regularly audited. Their functioning is more transparent.	(vii) Unorganised financial intermediaries do not maintain proper books of accounts. They do not charge uniform interest rates. They keep their business affairs confidential.
(viii) Formal credit sector usually grants loan for productive purposes like purchase of machinery, agricultural equipments, house, etc.	(viii) Informal credit sector usually does not differentiate between loan for productive and unproductive purposes. They easily give loan even for unproductive purpose like loan for family function, for illness, etc.
(ix) Here, more documentation is required. It involves many formalities.	(ix) It involves less documentation. It involves less formalities. That is why illiterate persons prefer to take loan from this sector.

#### Q. 5. How does RBI supervise banks?

Ans. Reserve Bank of India supervises banks by laying guidelines and norms for the banks:

(i) RBI requires commercial banks to keep a certain percentage of their deposits in cash and other liquid assets. This percentage is called statutory liquidity ratio (at present this ratio is 25 per cent). After keeping a part of deposits in cash and other liquid assets,

banks can use their surplus funds to give loans. The objective is to ensure that banks can meet the withdrawal requirements of deposit holders.

**(ii)** RBI also requires commercial banks to deposit a certain percentage of their deposits with RBI in cash. This percentage is called cash reserve ratio (at present this ratio is 5.5 per cent).

**(iii)** RBI issues guidelines for fixing rate of interest on borrowings and lending by commercial banks.

**(iv)** RBI directs the commercial banks to give a certain percentage of loans to priority sector (agriculture, small-scale industries, self-help groups, etc.).