

## Question Bank in Social Science (Economics) Class-X (Term-II)

### 3 MONEY AND CREDIT

#### CONCEPT

- Money is anything which is commonly accepted as a medium of exchange and in discharge of debts.
- People exchange goods and services through the medium of money. Money by itself has no utility. It is only an intermediary. The use of money facilitates exchange.
- Direct exchange of goods against goods without use of money is called barter exchange (i.e. exchange of goods for goods). This is also known as CC economy (i.e. commodity for commodity economy).
- Simultaneous fulfilment of mutual wants by buyers and sellers is known as double coincidence of wants. Let us understand this concept with the help of an example :  
A shoe manufacturer wants to sell his shoes in the market and buy wheat. Now he has to directly exchange shoes for wheat without the use of money. He would have to look for a wheat growing farmer who not only wants to sell wheat but also wants to buy shoes in exchange.
- 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. Thereafter came the use of metallic coins—gold, silver, copper coins. This process was finally taken over by the paper money (which means currency notes). As the volume of transactions increased, even paper money started becoming inconvenient because of time involved in its counting and space required for its safe keeping. This led to the introduction of bank money (credit money) in the forms of cheque, demand drafts, credit cards etc.
- The major function of a bank is to give loans, particularly to businessmen and entrepreneurs and thereby earn interest.
- Banks get money for providing loans by accepting the deposits from people. Deposits are the lifeline of a bank. These are of two types : time deposits and demand deposits. Time deposits can be withdrawn only after a specified period of time. Demand deposits in the bank can be withdrawn on demand by issuing cheques.
- The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.
- Credit (i.e. giving loans) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payments with interest. Credit plays a vital and positive role in the society. This can be explained further with the help of a suitable example. Saleem obtains loans to meet the needs of production. The credit helps him to meet the need of ongoing expenses of production, complete production in time and thereby increase his earnings.  
Sometimes, credit, instead of helping people, pushes them into a debt trap.  
In Swapana's case who is a farmer, the failure of crop made loan repayment impossible. Credit in this case pushes the borrower into a situation from which recovery is painful.

- Terms of credit include interest rate, collateral and documentation requirements and the mode of repayment. The terms of credit may vary depending on the nature of the lender and the borrower.
- **Collateral** is an asset that the borrower owns (such as land, building, vehicles, livestock etc.) and uses this as a guarantee to the lender until the loan is repaid.
- **Formal credit** is generally available with the banks and cooperatives. They charge lesser rates of interest than informal institutions. The Reserve Bank of India (RBI) supervises the functioning of formal sources of loan.  
Informal lenders include moneylenders, traders, employers, relatives and friends etc. They charge much higher interest on loans. There is no one to stop them from using unfair means to get their money back.
- The **idea** behind Self-Help Groups is to organise the rural poor into self-help groups and collect their savings. Saving per member varies from Rs 25 to Rs 100 or more depending on the ability of the people to save. Members can take small loans from the group itself to meet their own needs. The group charges less rate of interest on these loans. If the group is regular in savings, it becomes eligible for availing loan from the bank.

## I. SUMMATIVE ASSESSMENT

### A. NCERT TEXTBOOK QUESTIONS

#### Questions Within The Lesson

**Q.1. List the various sources of credit in Sonpur.**

**Ans.** There are various sources of credit which are available in Sonpur. These are as follows :

- (i) agricultural traders      (ii) moneylenders      (iii) commercial banks  
(iv) cooperative societies      (v) relative and friends etc.

**Q.2. Look at a 10-rupee note. What is written on the top? Can you explain this?**

**Ans.** Reserve Bank of India (Guaranteed by the Central Government) is written on a 10-rupee note. This statement means that the Central government has authorised the Reserve Bank of India to issue this note on behalf of the Central government.

**Q.3. Write the functions of money.**

**Ans.** Money acts as a common medium of exchange, a common measure of value, a standard of deferred payments and a store of value.

**Q.4. How do banks mediate between those who have surplus money and those who need money?**

**Ans.** Banks collect surplus money with people, as deposits. Banks use a major portion of these deposits to extend loans. There is a huge demand for loans by businessmen and industrial houses for various economic activities. Banks may use the deposits to meet the loan requirements of the people. In this way, banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers) and banks charge a higher interest rate on loans than what they offer on deposits.

**Q.5. Modern currency is without any use of its own as a commodity. Why is it accepted as money?**

**Ans.** Modern forms of money include paper notes and coins. Modern currency is neither made of precious metals such as gold, silver and copper nor consists of daily use commodities. The modern currency is without any use of its own.

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

**Q.6. Why are banks willing to lend to women organised in self-help groups (SHGs)?**

**Ans.** Non-payment of loan by any member of the group is followed up seriously by other members in a group. Because of this feature, banks are willing to lend to the poor women of SHGs, even though they have no collateral as such.

**Q.7. Why do you think that the share of formal sector credit is higher for the richer households, compared to the poorer households?**

**Ans.** The share of formal sector credit is higher for the richer households because they can deposit the collaterals (security) such as land, building, livestock etc. while it is difficult for the poorer households because of non-availability of such collaterals.

**Q.8. Compare the terms of credit for the small farmer, the medium farmer and the landless agricultural worker in Sonpur.**

**Ans.**

Small farmer	Medium farmer	Landless agricultural worker
Small farmers generally take loan either from moneylenders or from agricultural traders. The rate of interest is very high but neither collateral nor documentation is required for taking loan.	For medium farmers credit facilities are also available from banks at a very reasonable rate of interest. Repayment terms are flexible but in the process of getting credit, documentation and collateral is required.	Being a landless agricultural worker he remains idle several months in a year. To meet his contingent requirements (in case of illness, or festivals) he has to borrow credit from moneylender at a very high rate. These workers are exploited by these moneylenders.

**Q.9. In India, about 80% of farmers are small farmers who need credit for cultivation.**

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

**Ans.** (a) As the small farmers find it difficult to provide necessary documents / formalities and collateral security required for loan, so these banks might be unwilling to lend to small farmers.

(b) Informal sources of credit like moneylenders, employers, relatives, friends etc. are the sources from which small farmers borrow the credit.

(c) If higher rate of interest is carried as terms of credit from informal sources, then it would be unfavourable for the small farmers.

(d) Farmers can get cheap credit through cooperatives and SHGs.

Questions in the Exercise

**Q.1. Self-help groups also discuss the following social problems.**

- (a) Health (b) Nutrition (c) Domestic violence (d) All the above

**Ans.** (d)

**Q.2. In SHG most of the decision regarding savings and loan activities are taken by**

- (a) Bank (b) Members  
(c) Non-government organisations (d) Government.

**Ans.** (b)

**Q.3. Fill in the blanks :**

- (i) Majority of the credit needs of the \_\_\_\_\_ households are met from informal sources.  
(ii) \_\_\_\_\_ cost of borrowing increases 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.

**Ans.** (i) rural (ii) higher (iii) RBI (iv) deposits (v) collateral

**Q.4. In situations with high risks, credit might create further problems for the borrower. Explain.**

**Ans.** The areas like farming, where high risks are involved, crop failure make loan repayment impossible. To repay the loan amount, farmers have to sell a portion of their land. In such a situation credit pushes the person into a debt-trap from which recovery is very painful.

**Q.5. Why do lenders ask for collateral while lending?**

**Ans.** Generally lenders ask for collateral, which is an asset that the borrower owns (such as land, building, vehicle, livestock etc.) and uses this as a guarantee to a lender until the loan is repaid. If borrower fails to repay the loan, the lender has the right to sell the collateral to obtain payments.

**Q.6. In what ways does the Reserve Bank of India supervise the functioning of banks? Why is it necessary?**

**Ans.** The Reserve Bank of India supervises the functioning of formal sources of loan. For example, we have seen that the banks maintain a minimum cash balance out of the deposits they receive. The RBI monitors that the banks actually maintain the cash balance. Similarly, the RBI sees that the banks give loans not just to profit making businesses but also to small cultivators, small scale industries etc.

**Q.7. Manav needs a loan to set up a small business. On what basis will Manav decide whether to borrow from a bank or a moneylender? Discuss.**

**Ans.** If Manav has all the necessary documents showing his paying capacity and collateral security then he will go in for a formal source of credit, i.e. bank. Bank will charge a reasonable rate of interest. If he cannot provide necessary documents required for loan from the bank, then he has to opt for an informal source of credit who sometimes lends at higher rate of interest and uses unfair means to get back the money.

## PREVIOUS YEARS' QUESTIONS

**Q.1. Which are two major sources of formal sector credit in India? Why do we need to expand the formal sources of credit?** [2009]

**Ans.** Formal sector credit in India includes loans from banks and cooperatives. RBI supervises their functions of giving loans. Lower rate of interest is charged as compared to informal sources of credit on these loans.

**Need to expand formal sources of credit :** Formal sector credit needs to be expanded in India so as to save people and especially poor farmers and workers from exploitation of the informal sector credit. Formal sector lends at a reasonable rate of interest which is very cheap. Formal credit can fulfil various needs of the people through providing cheap and affordable credit.

## OTHER IMPORTANT QUESTIONS (AS PER CCE PATTERN)

### B. MULTIPLE CHOICE QUESTIONS (1 MARK)

**Q.1. System of exchanging goods for goods is called :**

- (a) monetary system
- (b) credit system
- (c) barter system
- (d) exchange system

**Ans.** (c)

**Q.2. Money**

- (a) eliminates double-coincidence of wants
- (b) acts as a common measure of value
- (c) acts as a standard of deferred payments
- (d) all the above

**Ans.** (d)

**Q.3. At present which form of money is increasingly used apart from paper money?**

- (a) Commodity money
- (b) Metallic money
- (c) Plastic money
- (d) All the above

**Ans.** (c)

**Q.4. What are the modern forms of money?**

- (a) Currency
- (b) Plastic money

- (c) Demand deposits
- (d) All the above

**Ans.** (d)

**Q.5. Terms of credit are with respect to :**

- (a) interest rate
- (b) collateral
- (c) documentation
- (d) all the above

**Ans.** (d)

**Q.6. Credit or loan refers to an agreement between :**

- (a) lender and borrower
- (b) consumer and producer
- (c) government and tax payer
- (d) all the above

**Ans.** (c)

**Q.7. The formal sector meets only about \_\_\_\_\_ of the credit needs of rural people :**

- (a) 25%
- (b) 52%
- (c) 75%
- (d) 15%

**Ans.** (b)

**Q.8. The part of the total deposits which a bank keeps with itself in cash is**

- (a) zero
- (b) a small proportion
- (c) a big proportion
- (d) 100 percent

**Ans.** (b)

**Q.9. An asset that the borrower uses as a repayment guarantee to a lender is termed as a :**

- (a) deposit (b) collateral  
(c) advance (d) all the above

**Ans. (b)**

**Q.10. Currency is issued in India by :**

- (a) commercial banks  
(b) regional rural banks  
(c) nationalised banks  
(d) Reserve Bank of India

**Ans. (d)**

**Q.11. Who supervises the credit activities of lenders in the informal sector?**

- (a) Central Bank of India  
(b) Commercial banks  
(c) Moneylenders  
(d) None

**Ans. (d)**

**Q.12. Rich households in urban areas avail cheap credit from**

- (a) formal sources (b) informal sources  
(c) government (d) all the above

**Ans. (a)**

**Q.13. Productive loans by farmers are taken**

- (a) to buy seeds, fertilisers, implements etc.  
(b) for celebration of marriages  
(c) for storage of foodgrains in godowns  
(d) none of the above

**Ans. (a)**

**Q.14. Which of the following is not a source of rural credit?**

- (a) Regional rural banks  
(b) Moneylenders  
(c) Traders  
(d) Government

**Ans. (d)**

**Q.15. Rate of interest charged by moneylenders as compared to that charged by banks is :**

- (a) lower (b) same

- (c) slightly higher (d) much higher

**Ans. (d)**

**Q.16. Regional Rural Banks were set up in \_\_\_\_\_.**

- (a) 1969 (b) 1979  
(c) 1989 (d) 1999

**Ans. (a)**

**Q.17. A Self-Help Group usually has :**

- (a) 5-10 members (b) 10-15 members  
(c) 15-20 members (d) 20-25 members

**Ans. (c)**

**Q.18. When was the KCC (Kisan Credit Card) scheme introduced?**

- (a) 1969 (b) 1979  
(c) 1987-88 (d) 1998-99

**Ans. (d)**

**Q.19. Which state accounts for maximum percentage of SHGs (self-help groups) in bank credit?**

- (a) Andhra Pradesh (b) Tamil Nadu  
(c) Kerala (d) Karnataka

**Ans. (a)**

**Q.20. \_\_\_\_\_ are widely accepted as a medium of exchange.**

- (a) Rupee notes (b) Gold coins  
(c) Silver coins (d) All the above

**Ans. (a)**

**Q.21. Majority of the credit needs of the poor households are met from**

- (a) formal sources  
(b) informal sources  
(c) self-help groups  
(d) none of the above

**Ans. (b)**

**Q.22. Who supervises the functioning of formal sources of loans?**

- (a) RBI (Reserve Bank of India)  
(b) Central government  
(c) State government  
(d) None

**Ans. (a)**

**Q.23. Which of the following is a major reason which prevents the poor from getting bank loans?**

- (a) Absence of collateral (security)
- (b) Non-repayment of loans
- (c) Higher interest rates
- (d) Documentation

**Ans.** (a)

**Q.24. Who helps the borrowers to overcome the problem of lack of collateral?**

- (a) Self-help group (SHG)
- (b) State government
- (c) Employers

(d) Moneylenders

**Ans.** (a)

**Q.25. Formal sources of credit include**

- (a) banks
- (b) moneylenders
- (c) employers
- (d) all the above

**Ans.** (a)

**Q.26. Which of the following is not a modern form of money?**

- (a) Paper notes
- (b) Demand deposits
- (c) Silver coins
- (d) None of the above

**Ans.** (c)

### PREVIOUS YEARS' QUESTIONS

**Q.1. Which of the following is not an advantage of self-help group?**

[2011 (T-2)]

- (a) Grant of timely loans
- (b) Reasonable interests
- (c) A platform to discuss various issues
- (d) Does not help women to become self-reliant.

**Ans.** (d)

**Q.2. What do you mean by collateral?**

[2011 (T-2)]

- (a) It is the total sum of money with a person
- (b) It is the things kept in the locker
- (c) It is the guarantee given by the lender to the borrower.
- (d) It is the security to a lender until the loan is repaid

**Ans.** (c)

**Q.3. Identify the formal source of credit.**

[2011 (T-2)]

- (a) Cooperative societies
- (b) Moneylenders
- (c) Traders
- (d) Landlords

**Ans.** (a)

**Q.4. Which one of the following is not a modern form of money? [2011 (T-2)]**

- (a) Demand Deposits
- (b) Paper currency
- (c) Coins
- (d) Precious metals

**Ans.** (d)

**Q.5. Which one of the following authorises money as a medium of exchange? [2011 (T-2)]**

- (a) Reserve Bank of India
- (b) Self Help Groups
- (c) The Central Government
- (d) The President of India.

**Ans.** (a)

**Q.6. Which of the following is not true regarding the in convenience of Barter Exchange ? [2011 (T-2)]**

- (a) Lack of double coincidence of want
- (b) Absence of divisibility
- (c) Difficulty in storing wealth
- (d) Availability of money as a medium of exchange.

**Ans.** (d)

**Q.7. Which one of the following is NOT an informal sector loans for poor rural household in India ? [2011 (T-2)]**

- (a) Commercial Banks
- (b) Moneylenders
- (c) Traders
- (d) Landlords

Ans. (a)

**Q.8. Which one of the following is the important characteristic of modern form of currency? [2011 (T-2)]**

- (a) It is made from precious metal
- (b) It is made from thing of everyday use
- (c) It is authorised by the commercial banks
- (d) It is authorised by the Government of the country

Ans. (d)

**Q.9. Which one of the following constitutes money in modern day economy? [2011 (T-2)]**

- (a) Gold                      (b) Silver
- (c) Interest                (d) Demand Deposits

Ans. (d)

**Q.10. In a SHG most of the decisions regarding loan activities are taken by [2011 (T-2)]**

- (a) Banks                      (b) Member
- (c) Non-government organizations
- (d) Cooperatives

Ans. (b)

**Q.11. Which one of the following is a major reason that prevents the poor from getting loans from the banks? [2011 (T-2)]**

- (a) Lack of capital
- (b) Not affordable due to high rate of interest
- (c) Absence of collateral security
- (d) Absence of mediators

Ans. (c)

**Q.12. Which one of the following agencies issues currency notes on behalf of the government of India ? [2011 (T-2)]**

- (a) Ministry of Finance
- (b) Reserve Bank of India

- (c) State Bank of India
- (d) World Bank

Ans. (c)

**Q.13. Formal Sources of credit include : [2011 (T-2)]**

- (a) money lenders (b) co-operatives
- (c) Employers
- (d) Finance companies

Ans. (b)

**Q.14. Anything which is generally accepted by the people in exchange of goods and services is called : [2011 (T-2)]**

- (a) money                      (b) barter
- (c) credit                      (d) loans

Ans. (b)

**Q.15. Terms of credit does not include : [2011 (T-2)]**

- (a) interest rate              (b) collateral
- (c) cheque                      (d) mode of repayment

Ans. (c)

**Q.16. Banks do not give loans : [2011 (T-2)]**

- (a) to small farmers
- (b) to marginal farmers
- (c) to industries
- (d) without proper collateral and documents

Ans. (d)

**Q.17. The functioning of the formal sources of credit are supervised by : [2011 (T-2)]**

- (a) Government of India
- (b) Reserve Bank of India
- (c) Ministry of finance
- (d) State Bank of India

Ans. (b)

**Q.18. Which one of the following is NOT a formal source of credit? [2011 (T-2)]**

- (a) Commercial Banks
- (b) State Bank of India
- (c) Employers
- (d) Co-operatives

Ans. (c)

**Q.19. Which one of the following is not included in the terms of credit?**

- (a) Rate of Interest [2011 (T-2)]  
(b) Mode of payment  
(c) Rate of saving  
(d) Collateral

**Ans. (c)**

**Q.20. Which is not the main source of credit from the following for rural households in India ? [2011 (T-2)]**

- (a) Traders  
(b) Relatives and friends  
(c) Commercial Banks  
(d) Moneylanders

**Ans. (a)**

**Q.21. Cheap and affordable credit results in which one of the following ? [2011 (T-2)]**

- (a) Slow economic growth  
(b) Creating a debt trap  
(c) Poverty  
(d) Good economic growth

**Ans. (d)**

**Q.22. Deposits in bank accounts withdrawn on demand are called : [2011 (T-2)]**

- (a) Fixed deposit  
(b) Recurring deposit  
(c) Demand deposit  
(d) None of these

**Ans. (c)**

**Q.23. Banks use the major portion of the deposit to : [2011 (T-2)]**

- (a) Keep reserve so that people may withdraw  
(b) Meet their routine expenses  
(c) Extend loans  
(d) Meet renovation of the bank

**Ans. (c)**

**Q.24. When both parties agree to sell and buy each others commodities it is known as : [2011 (T-2)]**

- (a) measure of value  
(b) double coincidence of wants  
(c) store of value (d) credit

**Ans. (b)**

**Q.25. Which among these is an essential feature of barter system ? [2011 (T-2)]**

- (a) Money can easily exchange any commodity  
(b) It is based on double co-incidence of wants  
(c) It is generally accepted as a medium of exchange of goods with money  
(d) It acts as a measure and store of value

**Ans. (b)**

**Q.26. Which one of the following is the main source of credit for the rich households? [2011 (T-2)]**

- (a) Informal  
(b) Formal  
(c) Both formal and informal  
(d) Neither Formal nor informal

**Ans. (b)**

**Q.27. Why bank deposits are known as demand deposits ? [2011 (T-2)]**

- (a) Deposits with the banks  
(b) People have the provision to withdraw the money when they require.  
(c) Deposits with the banks cannot be withdrawn.  
(d) People have the provision to withdraw the money only by cash.

**Ans. (b)**

**Q.28. Which households take more loans from the formal sector ? [2011 (T-2)]**

- (a) Poor households and rich household.  
(b) Well off households and households with few assets.  
(c) Poor households and well off households  
(d) Well off households and rich households.

**Ans. (d)**

**Q.29. What portion of deposits are kept by the banks for their day to day transaction ? [2011 (T-2)]**

- (a) 10% (b) 15%  
(c) 20% (d) 25%

**Ans. (b)**

### C. SHORT ANSWER TYPE QUESTIONS (3 MARKS)

**Q.1. Can everyone in Sonpur get credit at cheap rate? Who are the people who can?**

**Ans.** No, not every one in Sonpur can get credit at cheap rates.

Generally some medium farmers, who are literate and have their own land for cultivation, get credit at cheap rates from banks.

**Q.2. Write two main functions of a commercial bank.**

**Ans.** Accepting deposits from the individuals and providing loans to the entrepreneurs are the two main functions of a commercial bank.

**Q.3. Why should credit at reasonable rates be available for all?**

**Ans.** If credit is available at reasonable rate, this would lead to higher income and many people could then borrow for a variety of needs such as for growing crops, for setting small scale industries, for business etc. Thus credit at reasonable rate will be helpful in the development process of a country.

**Q.4. What do you understand by “terms of credit”?**

**Ans.** Interest rate, collateral and documentation requirement, and the mode of repayment together are called the terms of credit.

**Q.5. How is credit helpful for the country’s development?**

**Ans.** Large numbers of transactions in our day to day activities involve credit in some form or the other. Credit helps people to meet the ongoing expenses of production, complete production on time and thereby increase their earnings. Hence, it plays a vital and positive role in a country’s development.

**Q.6. What is the basic idea behind the SHG’s for the poor? Explain in your words.**

**Ans.** The basic idea behind the SHG’s for the poor is to provide credit facilities at a cheaper rate and also without much documentation process.

An SHG has 15-20 members, usually from the neighbourhood, who meet and save regularly in the range of Rs 25 to Rs 100 or more. The amount which is collected by an SHG is utilised to give loan to a member of the group. Now the group decides as regards the loans to be granted, the purpose, amount, interest to be charged, and its repayment schedule.

**Q.7. Why do we need to expand formal sources of credit in India?**

**Ans.** Formal sources of credit in India provide loans to individuals at far cheaper rates than informal sources of credit. This helps to increase their income and they are able to repay the principal amount as well as interest by parting with a small part of their higher income. It will lead to more production. This helps in the economic development of a country.

**Q.8. What is the main source of income for banks?**

**Ans.** The main source of income for banks is the difference between interest rate charged from borrowers and what is paid to depositors. After keeping a portion of deposits as reserves banks lend to people who demand money as loan and bank charges interest from them.

### PREVIOUS YEARS’ QUESTIONS

**Q.1. What do the banks do with the 'Public Deposits'? Describe their working mechanism.**

[2008]

**Ans.** Banks accept deposits from the Public and use the major portion of these deposits to extend loans. There is a huge demand for loans for various economic activities. Banks make use of these deposits to meet the loan requirement of the people and thereby earn interest. This is, infact, the main source of income of the bank. In this way, bank acts as a mediator between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers). Banks charge a higher interest rate on loans than what they offer on deposits.

**Q.2. What are demand deposits? Describe any three salient features of demand deposits.**

[2008]

**Ans.** People with surplus money or extra amount deposit it in banks. The banks keep the money safe and give an interest on it. The deposits can be drawn at any time on demand by the depositors. That is why they are called 'demand deposits'.

- (i) The demand deposits encashable by issuing cheques have the essential features of money.
- (ii) They make it possible to directly settle payments without the use of cash.
- (iii) Since demand drafts/cheques are widely accepted as a means of payment along with currency, they constitute money in the modern economy.

**Q.3. Mention any three points of distinction between formal sector loan and informal sector loan.**

[2010]

**Ans.**

Formal Sources of Credit	Informal sources of Credit
1. Formal sources of credit are generally provided by banks and cooperatives. 2. Interest rate for repaying loans is lower. 3. RBI supervises the functioning of formal sources of loan and also ensures that these facilities should also be given to small cultivators and small borrowers.	1. Informal sources of credit are generally provided by moneylenders, traders, employers, relatives and friends. 2. Interest rate for repaying loans is costlier. 3. In informal sector no such organisation is there to supervise the credit activities of lenders that they used to charge higher rate of interest on loans.

#### D. LONG ANSWER TYPE QUESTIONS (4 MARKS)

**Q.1. Differentiate between Reserve Bank of India RBI and Commercial Bank.**

**Ans.**

Reserve Bank of India	Commercial Bank
1. It has the sole monopoly right to issue currency notes. 2. It is the apex bank in the money market of a country. 3. It does not deal with the public. 4. It acts as a banker to the government.	1. No such thing is done by commercial bank. 2. It is a unit in the banking structure of the country. 3. It directly deals with the public and business firms. 4. It has no such responsibility towards the state.

#### PREVIOUS YEARS' QUESTIONS

**Q.1. Explain any two features each of formal sector loans and informal sector loans.**

[2011 (T-2)]

**Ans. Formal Sector Loans :**

Formal sector loans include loans from banks and cooperatives. Features of formal sector loans are :

- (i) Formal sectors provide cheap and affordable loans and their rate of interest is monitored by RBI.
- (ii) Formal sector strictly follows the terms of credit which includes interest rate, collateral, documentation and the mode of repayment.

**Informal Sector Loans :**

Informal sector loans include loans from moneylenders, traders, employers, relatives, friends etc. Features for informal sector loans are :

- (i) Their credit activities are not governed by any organisation, therefore they charge higher rate of interest.
- (ii) Informal sector loan providers know the borrowers personally, and hence they provide loans on easy terms without collateral and documentation.

**Q.2. What are the two main reasons for formal credit not being available to the rural poor ? Why is there a need to expand rural credit ? [2011 (T-2)]**

**Ans.** The two main reasons for formal credit not being available to rural poor are :

- (i) Absence of collateral and documentation is the main reason which prevents rural poor from getting bank loans.
- (ii) The arrangements of informal sector loans are flexible in terms of timelines, procedural requirements, interest rates etc. They are adjustable according to the needs and convenience of the borrower.

There is a need to expand rural credit from the side of formal sector because :

- (i) Informal sectors exploit rural poors by putting them in debt-traps.
- (ii) Cheap and affordable credit for rural poors is important for the country's overall development.

**Q.3. Why do the rural borrowers depend on the informal sector for credit? What steps can be taken to encourage them to take loans from the formal sources ? Explain any two. [2011 (T-2)]**

**Ans.** The rural borrowers depend on the informal sector for credit because :

- (i) Absence of collateral and documentation with rural borrowers.
- (ii) Flexible loans in term of timelines, interest rates, procedural requirements etc. are provided to rural borrowers by informal sectors.

Steps that can be adopted to encourage them to take loans from the formal sources are :

- (i) Awareness among rural borrowers against the exploitation of informal sectors. Need to aware them regarding high rate of interest and debt traps made by such moneylenders.
- (ii) Promotion to self-help groups. These groups collect their savings as per their own ability to save. Members can take small loans from the groups to meet their requirements. If the group is regular in savings for year or two, it can avail loan from the bank.

**Q.4. 'Cheap and affordable credit is crucial for the country's development'. Explain the statement with four points.**

**OR**

**Why do we need to expand formal source of credit in India ? Explain any four reasons.**

**[2011 (T-2)]**

**Ans.** If the loans are cheap and affordable, this can lead to countries development in the following ways :

- (i) Cheap loans results in higher incomes and higher profits which can help in the expansion of business.
- (ii) More and more people can be benefitted by the loans in their businesses.
- (iii) This can help in making more and more agricultural activities, small-scale industries etc. Credit can be distributed more equally which helps in benefitting the poors by the help of cheaper loans.

**Q.5. Answers the following questions :**

- (a) Why are banks unwilling to lend loans to small farmers ?
- (b) Besides banks, what are the other sources of credit from which the small farmers can borrow.
- (c) Explain how terms of credit can be unfavourable for the small farmers.
- (d) From where can small farmers get cheap loans ?

- Ans.** (a) Banks provide loans after collateral and documentation securities, which generally the small farmers failed to comply with. Therefore, banks are unwilling to lend loans to small farmers.
- (b) There are several informal sources of credit like landlords, moneylenders, traders, relatives and friends etc.
- (c) Terms of informal credit can put the small farmers into debt-traps. Higher rate of interest and unfavourable conditions expit farmers by the situation of multiple loans.
- (d) Farmers can get cheap and safe loans from formal credit providers i.e., banks and co-operative societies.

**Q.6. Which are the two major sources of formal sector credit in India ? Why do we need to expand formal sources of credit ?** [2011 (T-2)]

- Ans.** The two major sources of formal sector credit in India are — commercial banks and cooperative societies.

We need to expand formal sources of credit due to following reasons :

- (a) Informal sources of credit exploit the poors resulting in putting them into debt-traps.
- (b) Formal sources of credit are cheaper and thus they help in country's development.

**Q.7. What is meant by term of credit ? What does it include ?** [2011 (T-2)]

- Ans.** Terms of credit are the requirements need to be satisfied for any credit arrangements. It includes interest rate, collateral, documentation and mode of repayment. However the terms of credit vary depending upon the nature of lender, borrower and loan.

**Q.8. How does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?** [2011 (T-2)]

- Ans.** Reserve Bank of India (RBI) supervised the banks in the following ways :

- (i) It monitors the balance kept by banks for day-to-day transactions.
- (ii) It checks that the banks give loans not just to profit-making businesses and traders but also to small borrowers.
- (iii) Periodically banks have to give details about lending, borrowers and interest rate to RBI. It is necessary for securing public welfare. It avoids the bank to run the business with profit motive only. It also keeps a check on interest rate of credit facilities provided by bank. RBI makes sure that the loans from the banks are affordable and cheap.

**Q.9. Describe four features of Self-Help Group (SHG).** [2011 (T-2)]

- Ans.** The features of Self-Help Group (SHG) are :

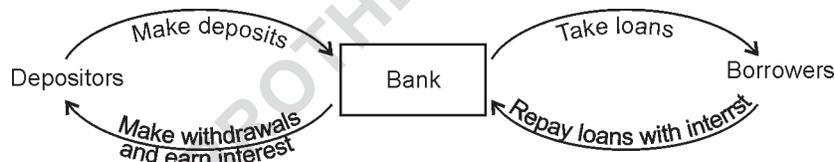
- (i) People form their personal groups for the purpose of savings and also lend money among themselves.
- (ii) Rate of interest is lower than informal service providers.
- (iii) They can also avail loans from banks if their savings are regular.
- (iv) Decisions regarding the savings and loan activities are taken by group members.

**Q.11. What is double coincidence of want? How has money solved this problem? [2011 (T-2)]**

**Ans.** Things exchanged for other things without the use of money is known as barter system. The barter system laid the foundation of trade but trade was limited to the bounds of a village or town. Hence, in a barter system when both the parties agree to sell and buy each others commodities, it is known as double coincidence of wants. Whatever commodity a person desires to sell is exactly what commodity the other wishes to buy. Without double coincidence of wants exchange of goods is not possible. Therefore, it is an essential feature. Money eliminates the need of double coincidence of wants. One can easily exchange their goods in exchange of money and later on pay money for the desired commodities. Money acts as a intermediate in the process of exchange, it is called as medium of exchange.

**Q.12. How do banks mediate between those who have surplus money and those who need money? [2011 (T-2)]**

**Ans.** People keep their surplus money in banks for safety and interest which is provided by banks to them. Banks again keep only a small proportion of their cash with themselves. These days banks keep only 15% of the total deposits with them. Rest of the money banks keep to extend loans. Banks charge interest on loans which is higher than the interest on deposits. This surplus interest becomes the source of income for the banks. The 15% of cash deposits which banks keep with themselves helps to carry on with, day-to-day transactions. Like everyday, depositors come to withdraw some of their cash.



**Q.13. Differentiate between formal and informal sources of credit. [2011 (T-2)]**

**Ans.**

Formal Sources	Informal Sources
1. Formal sources of credit are loans from banks and cooperative societies.	1. Informal sources of credit are money-lenders, traders, employers, relatives, friends etc.
2. Functioning of formal sources of credit is governed by Reserve Bank of India. Their interest rate and money lending details are periodically checked by RBI.	2. There is no organisation that manages or check the credit activities performed by informal sources.
3. Rate of interest is common and fixed for all formal sources and borrowers.	3. Rate of interest depends upon the choice of moneylenders.
4. Formal sources of credit needs to satisfy all the terms of credit before credit, activities.	4. Informal sources of credit are flexible in terms of credit.
5. They provide cheap and affordable credit for both urban and rural borrowers interest.	5. They generally charge higher rate of

**Q.14. Mention four characteristics each of the formal and informal sources of credit in India. [2011 (T-2)]**

**Ans. Features of formal sources of credit are :**

- (a) Formal sources of credit are provided by banks and cooperative societies to the borrowers.
- (b) Reserve Bank of India (RBI) governs the functioning of formal source of credit. RBI periodically checks the interest rate and other details of these sources.
- (c) They follow proper terms of credit which includes collateral, documentation, rate of interest and mode of repayment.
- (d) They provide cheap and affordable credits with common terms of credit for all.

**Features of informal sources of credit are :**

- (a) Informal sources of credit are moneylenders, traders, employers, relatives, friends etc.
- (b) There is no government or private organisation that manages or check the credit activities performed by informal sources.
- (c) Their terms of credit are flexible for the personal benefit of the lenders and condition of borrowers.
- (d) They generally charge higher rates of interest and exploit the borrowers for their own benefits.

**Q.15. Study the table given below and answer the questions that follow : [2011 (T-2)]**

**PEOPLE DEPENDING ON FORMAL SECTOR CREDIT IN URBAN AREAS**

Category	Percentage of people
Poor households	15%
Households with few assets	47%
Well-off households	72%
Rich households	90%

- (i) Poor households share of formal credit in the urban areas is low as compared to that of rich households. Why is it so ?
- (ii) Mention two difficulties faced by poor households in taking loan from a formal sector.

**Ans. (i)** Poor households share of formal credit in urban areas is low as compared to that of rich households due to the following reasons :

- (a) Poors generally lack in collateral guaranters and do not have proper mode of repayment.
- (b) Informal sources of credit are generally flexible in timings, rate of interest, repayment schedule etc.

Therefore, it is easier for poors to approach moneylenders as they know them personally.

- (ii) (a) Poors are not able to satisfy general terms of credit mostly collateral guarantees.
- (b) Informal moneylenders know the boor borrowers personally and therefore flexible in terms of repayment schedule, amount and interest etc.

**Q.16. What are the modern forms of money currency in India? Why is it accepted as a medium of exchange? How is it executed? [2008]**

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

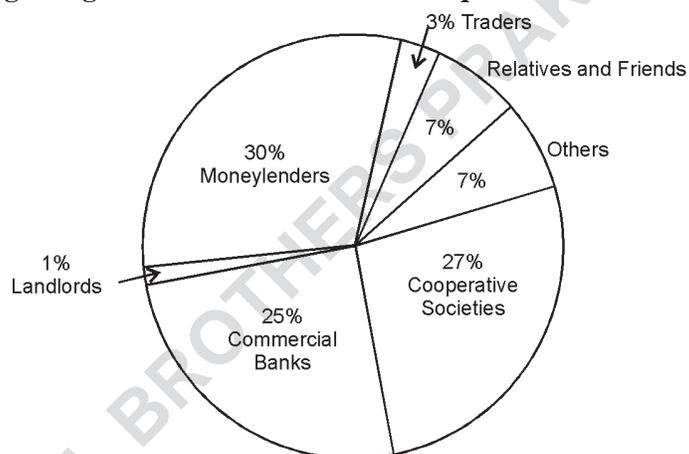
It is accepted as a medium of exchange because the currency is authorised by the government of India. No individual in India can legally refuse a payment made in rupee.

Any person holding money can easily exchange it with any commodity or service that he desires. It acts as intermediate in the exchange process of different countries.

**Q.17. Why are transactions made in money? Explain with suitable examples. [2009]**

**Ans.** Money is accepted as a medium of exchange because the currency is authorised by the government of India. In money transactions, money can be paid for any goods or services one desires. For example : the producer of shoes may want wheat in exchange for his shoes. But he may find it difficult to find a person who is also willing to exchange his wheat for shoes. So simultaneous fulfilment of mutual wants is the first and foremost condition to buy and sell the commodity. In money transaction one can buy a commodity whenever one wants it. One does not have to wait for another person to agree to an exchange of goods.

**Q.18. Study the diagram given below and answer the questions that follow : [2008]**



Sources of credit for Rural Households in India in 2003.

- Which are the two major sources of credit for rural households in India?
- Which one of them is the most dominant source of credit for rural households?
- What is the most dominant source of credit? Give two reasons.

**Ans.** (a) Moneylenders and cooperative societies.

(b) Moneylenders

(c) (i) Moneylenders do not ask for a collateral.

(ii) Complicated paper work or documentation is not involved.

**Q.19. What are the various sources of credit in rural areas? Which one of them is the most convenient source of credit? Why is it most convenient? Give two reasons. [Delhi 2008]**

**Ans.** Various sources of credit in rural areas are : (i) Agricultural traders, (ii) Moneylenders, (iii) Commercial banks, (iv) Cooperative societies and (v) Relatives and friends.

The most convenient source of credit is a moneylender.

It is most convenient because of the following two reasons :

- (i) There is no need of documentation process while taking loan from informal sources (moneylenders).
- (ii) No collateral is required. Collateral is an asset that the borrower owns (such as land, building, livestock etc.) and uses this as a guarantee to the lender until the loan is repaid.

## II. FORMATIVE ASSESSMENT

### A. PROJECT WORK

Meet at least 50 children in your locality in the age group 6-10 years. Collect the information on following points.

- How many of them attend schools for education and how many of them remain at home?
- How many of them work as labourers at various locations like hotels, printing press, agriculture farms etc?
- What factors forced these children to work as child labourer?
- How many of these children attend government schools and what type of help they get from government or school authorities?
- The children who are studying in private schools, how much is the fees difference and what extra activities they learn in private schools?

Based on this data, draw conclusion about what percentage of children are child labourer. What is the difference between Government-aided schools and privately-managed schools? Are children fully aware about education?

### B. ACTIVITY

Meet 20 persons in your locality, some males and some females. Collect information about them in three major activities. Classify all those activities into economic and non-economic activities. Discuss about them in the class.

Objective : To understand classification of major economic activities.

Guidelines : (i) The persons who are unemployed should be treated separately.  
(ii) In which activity, maximum number of people are engaged and why?

### C. DEBATE

Topic : The workers in the unorganised sector need protection on the following issues : wages, safety and health.

Guidelines : Divide the class in two teams. Ask Team A to discuss why we need unorganised sector. Can it not be abolished? What is the employment scene of unorganised sector? Ask Team B to discuss various shortcomings like lack of basic facilities, wage structure, no necessary protection to operators, to healthcare facilities etc.

Based on this discussion, draw conclusion how to improve working conditions in unorganised sector. Why it cannot compete with organised sector?

#### D. DATA BASED QUESTION

The following table gives percentage contribution of primary, secondary and tertiary sectors in India's GDP. Answer following questions based on it.

Sector	% contribution to GDP in 1950-51 and 2002-03	
	1950-51	2002-03
Primary	56.5	27.2
Secondary	15	23.7
Tertiary	28.5	49.1

(Source – Economic Survey of India 2003)

- (i) How much GDP is coming from primary, secondary and tertiary sectors if total GDP in rupees (crores) in 1950-51 was 1,38,000 and in 2002-03 was 11,49,000?
- (ii) Show the data as bar diagram.
- (iii) What conclusions you draw from the bar graph?

#### E. MAKING POSTER/CHART/WALL PAPER

Prepare a poster/chart of major economic activities being classified into primary, secondary and tertiary sectors. Show various activities in primary, secondary and tertiary sectors.