

CHAPTER -3 MONEY AND CREDIT

ECONOMICS

Chapter 3 Money and Credit

Q1. What is a barter system?

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

Q2. 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 Since the deposits in the bank accounts can be withdrawn on demand these deposits are called demand deposits.

Q3. What is a cheque?

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 check has been made.

Q4. How do banks act as mediator?

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

Q5. 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.

Q6. What is 'collateral'?

Ans. 'collateral' is an asset that the borrower owns such as land, building, livestock, deposits with the bank and uses this as a guarantee to a lender until the loan repaid.

Q7. How do formal and informal sources of credit different from each other?

Ans.

Formal sector credit	Informal sector credit
1 Rate of interest charged is lower	Rate of interest charged is higher
2 Collateral is required to get the loan	Collateral is not always required
3. Reserve Bank of India supervises them	There is no organization to supervise them
4. Rich urban households depend on	Poor households depend on informal

CHAPTER -3 MONEY AND CREDIT

formal sector	sector
5. It requires more documentation.	It requires less documentation . That is why illiterate person prefer to take loan from this sector.
6. Example- Banks and cooperatives	Example - moneylenders traders friend

Q8. How does Reserve Bank of India supervises banks?

Ans. The RBI supervises the functioning of banks in this manner -

- i. It sees whether the banks are maintaining a minimum cash balance of the deposits.(around 15%)
- ii. It makes sure that people from all backgrounds receive loans and not only the rich, powerful businessman and traders.
- iii. Periodical statements are given by the banks to the RBI that contains information about to whom the bank has given loan, at what interest the loan was given,etc.
- iv. RBI fix the rate of interest which is accepted by all the banks in the country.

This is necessary so as to maintain equality of who receives the loans. . Even the small scale industries should be given the advantages of loans . As a result, the country's economy will also grow.

Q 9. Write a short note on Grameen bank of Bangladesh.

Ans.

- Professor Mohammed Yunus is the founder of Grameen bank of Bangladesh.
- He received Noble prize for peace in 2006.
- Grameen bank was started in 1970s as a small project.
- Almost all of the borrowers are women and belong to the poorest sections of the society.
- These borrowers have proved that not only women are reliable borrowers but that we can start and run a variety of of small income

CHAPTER -3 MONEY AND CREDIT

generating activities successfully .

Q.10 What is the basic idea behind the self help groups for the poor ?

- a) Self help groups basic idea is to provide financial resource for the poor by organising the rural poor especially women into small help groups.
- b) Self help groups are responsible for providing timely loans at a reasonable interest rate without collateral.

There are some main objectives of self help groups which are as follows:

- i. It collects savings of the members.
- ii. It provides loans without collateral as banks gives loans easily if a person is a member of self help group.
- iii. If the group is regular in savings it becomes eligible for taking loan from the bank.
- iv. It provides loans at at reasonable interest rate for variety of purposes such as releasing mortgage land, for meeting working capital needs, for housing material, acquiring assets such has sewing machine handlooms cattles etc
- v. It also provides platform to discuss and act on a variety of social issues such as education health nutrition domestic violence etc.

Q11. Why do to the poor households rely on informal credit?

Explain.

Ans. Poor households till today rely on informal sources of credit like money lenders because of the following reasons:

- i. Lack of banking facilities.
- ii. Even if banks are established in some rural areas it is very difficult to get credit from them due to paperwork involved which makes taking credit from the bank very difficult.
- iii. Informal creditors like money lenders happens to know the borrowers personally so they provide them the loan without collateral.

CHAPTER -3 MONEY AND CREDIT

Q12. What are the reasons why the banks might not be willing to lend to certain borrowers ?

Ans. The banks might not be willing to lend to certain borrowers because:

- i. Banks require proper documentation.
- ii. Banks require collateral as a security against loans
- iii. Borrowers who have not repaid their previous loans, the banks might not be willing to give them other loan.
- iv. Banks might not be willing to give loans to those businessmen who are going to invest in the business with high risk.

Q13. Why is it necessary for the banks and cooperative to increase their lending facilities in rural areas? Explain.

Ans.

- i. Formal sources are far behind in meeting the needs of the people in rural areas. Informal sources like money lenders traders have taken the rural areas under their influence.
- ii. Informal sources are not under any supervision from any authorized institution. They do not have rules and regulations.
- iii. Informal sources charge a high rate of interest from the borrowers which make it difficult for them to repay the loan they get trapped in the debt trap.
- iv. If more banks and cooperatives are present in rural areas ,people need not depend on informal source.
- v. Rural people will take loans from the formal sector and therefore the economy will grow.

CHAPTER -3 MONEY AND CREDIT

Q14. 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?

Ans. Various sources of credit in rural areas are agricultural traders, money lenders, commercial banks, cooperative ,relatives and friends

The most convenient source of credit is the money lender because of the following reasons:

- There is no need of documentation
- No collateral security is required.