

# \* Economics \*

Date:

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## chapter - 3

### Money and credit..



Define money.

Money is anything that serves as a medium of exchange for goods and services.

What are the limitations of barter systems?

Double <sup>come</sup> coincidence of wants.

Lack of common measure of value.

Could not serve as a method of different payments.

Indivisibility of commodities to be exchanged.

What is double coincidence of wants?

Simultaneously fulfillment of mutual want by buyer and seller in a market is known as double coincidence of wants.

How does money serve as a medium of exchange?

People exchange goods and services by giving money in return for any commodity one takes from the seller.

What are demand-deposits?

Banks accept deposits from people by asking them to open an account in their names. Banks also pay a certain amount of interests on such deposits. These

deposits can be retrieved or money can be withdrawn as and when people required. Since, these can be

withdrawn on demand, these deposits are called demand-deposits.

What is a cheque?

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 issued.

How do banks mediate b/w those who have surplus money and those who are in need of money?

Banks accept money from public in the form of deposits and use this money to provide loans and advances to those who are in need of money.

Banks pay interest to those from whom it accepts its deposits and charge a higher rate of interest from those to whom it lends money.

The difference between these two interest, i.e., the one it pays and one it charges is the income of the bank.

What is a collateral?

A collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and use this as a guarantee to a lender until the loan is repaid.

2. What are the terms of credit?

The conditions or specifications in the form of an agreement between the lender and the borrower regarding the interest rate, collateral, documentations requirement and mode of repayment together comprise terms of credit.

3. Differentiate between formal and informal sources of credit.

Formal sources of credit	Informal sources of credit.
<p>★ It includes loans from banks and cooperatives.</p>	<p>It includes loans from traders, money lenders, relatives, friends.</p>
<p>★ Reserve Bank of India (RBI) supervises the functioning of formal sources of loans.</p>	<p>No organisation supervises the credit activities the lenders in the informal sector.</p>
<p>★ It charges lower rate of interest.</p>	<p>It charges higher rate of interest.</p>

11) write a short note of Reserve Bank of India (RBI). OR

What are the functions of RBI?

Reserve Bank of India is an apex bank which controls the functioning of all the banks in the country. It has following functions :-

- RBI ensures that the banks maintain a minimum cash balance out of the deposits they receive.
- RBI sees that the banks give loans not just to profit making business and traders but also to small cultivators, small scale industries and to small borrowers.
- RBI receives report from different banks regarding how much they are lending, to whom and at what interest rates.

12) How do informal sector loans lead to debt trap? OR

Why is informal sector not a good choice for loan activities?

- Informal sector generally cost higher rate of interest.
- Higher cost of borrowing mean a larger part of the earnings is used to repay the loan. Sometimes the amount repaid is greater than the income of the borrower, this may lead to increasing debt and debt trap.

do you understand by self-help  
groups?

Self-help group helps in pooling the savings  
members who are poor people  
living in one neighbourhood who  
save regularly.

Members can take timely loans for a  
variety of purposes and at a reasonable  
rate of interest from the group.

If a group is regular in savings, it  
becomes eligible for availing loans

from banks in a year or two. Such loans  
taken in the name of the group helps to  
create self-employment opportunities for  
members.

Loans can also be used for releasing  
large lands for farming, working capital

for buying seeds, fertilizers for housing materials  
and required assets like sewing machine,  
looms, cattle etc.

The group decides the purpose, rate of interest,  
repayment schedule and also takes the  
responsibility of their repayment.

\* They not only make women self reliant but also provide a platform to discuss and act on variety of social issues such as health, nutrition and domestic violence etc.