

Class-X Economics Money and Credit

Money as a medium of exchange

※ Importance of money in Everyday life → • Why only money? 😞??



• What was the situation before the invention of money? 😞??

↓
Barter exchange

※ Double Coincidence of wants 😞??
→ What a person desires to sell is exactly what the other wishes to buy.

• A system where goods are directly exchanged without the exchange of money.

← Economy with Money
Eliminates the Need of double Coincidence → ∴ Money acts as a medium of exchange.

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Self-Help Groups for the Poor

∴ Poor households → Depend on Informal Sector → Why ☹️?

↓
∴ organised themselves into
Self Help Groups [SHGs]

↓
A group of 15-20 [usually known persons]

↓
Pool fund by their savings

- ↓
- Small loans can be provided to members at lower interest rate.
 - They may avail loans from banks.
 - Important decisions are taken by members.
 - Women empowerment, platform to discuss social issues.

- No collateral and documents
 - Informal lenders know the borrowers personally.
- ∴ But the truth is that borrowers get exploited.

Grameen Bank of Bangladesh

- Started in the 1970 and till October 2014 it got over 8.63 M Members across 81,390 villages spread across Bangladesh
- Started by Professor Muhammad Yunus and received Nobel Peace Prize in 2006.

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economy & Money and credit

Modern forms of Money

※ Money as a medium of exchange [Before introduction of coins] → Cattle, grains, Metallic coins

※ Modern Currency [Paper notes and coins]

※ Deposits with Banks

Without any use of its own.
[Fiat value, no Intrinsic value]

↓

Then why it is accepted
as medium of exchange? 😞

→ Because it is authorised
by the government of India.

• RBI

• No individual or organisation
is allowed to issue currency

※ Money in the form of deposit with banks.

→ Extra money → Deposit with bank → Bank account

Interest is given

※ Then they can withdraw it on demand

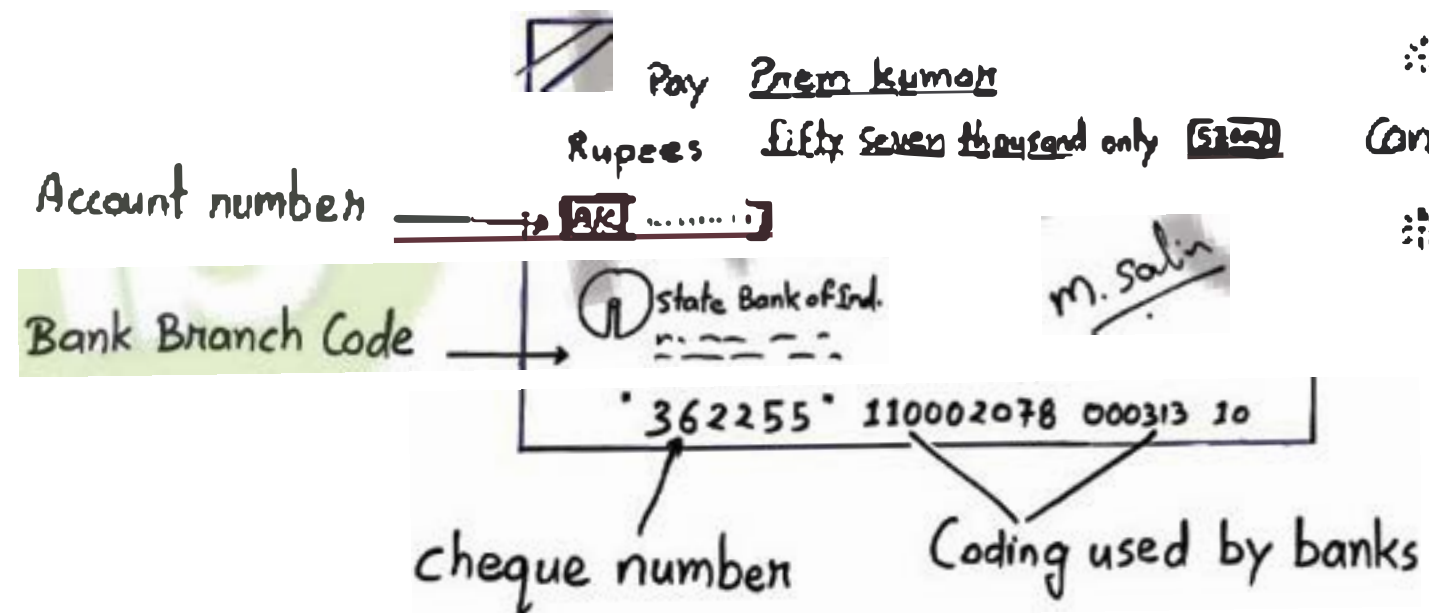
∴ Demand deposit.

※ Cheques ?? 😞??

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Cheque Payment

∴ A cheque is 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.



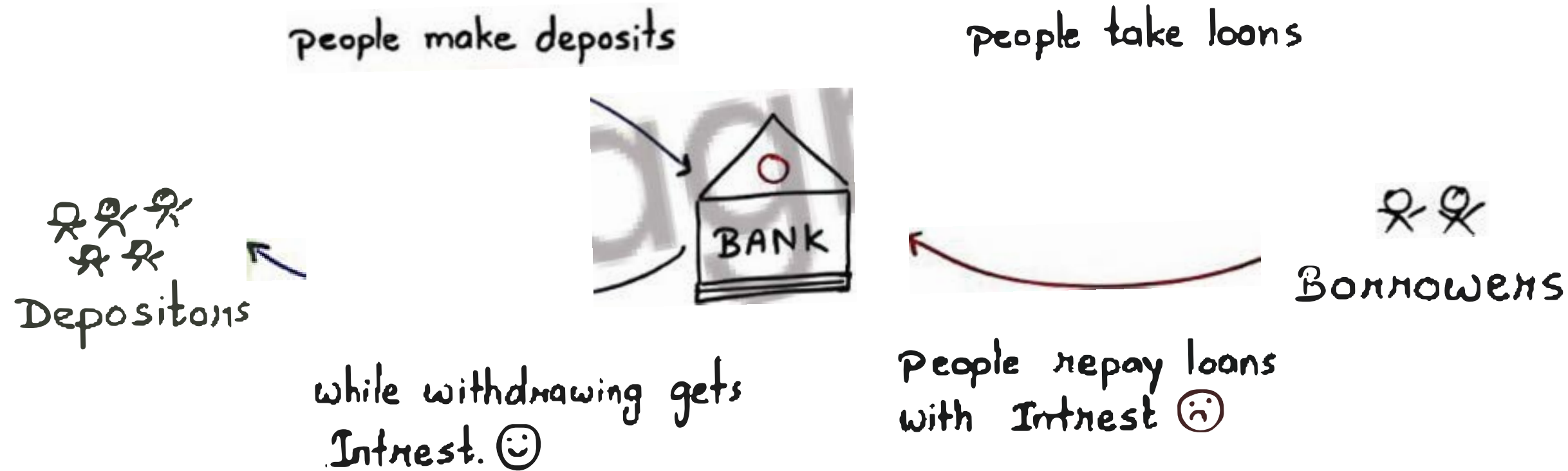
∴ Payment without the use of Cash
Can be settled with cheque.

∴ Demand deposits → Modern form of money.

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Loan activities of bank

* What do the banks do with the deposits?



* A small proportion of deposits is kept as Cash by Banks. 😞??

* Bank → Intermediary → Charge a higher interest rate on loans than what they offer on deposits. 😞??

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Two different Credit Situation_

Credit → [loan] = The lender Supplies the borrower with money, goods or services

In return for the promise of future payment.

Ex: Story of Salim

Credit → Increased his Income

∴ Credit therefore plays a vital and positive role in this Situation.

Ex: Story of Swapna

Credit → Pushed her in debt trap

∴ In this situation Credit pushes the borrower into a situation from which recovery is very painful.

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Terms of Credit

※ What is Terms of Credit ?? 😞??

→ Interest rate, Collateral and documentation requirement, Mode of repayment



↓
Security against loans. 😞??

It is an asset that borrower owns [land, building, vehicle, livestock] deposits with banks] and uses this as a guarantee to a lender until the loan is repaid.

※ Trick = DoCoMo Int.



Instalment / lump Sum
Cash / Gold / Property

※ T.O.C May vary depending on the nature of the lender and the borrower.

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Variety of Credit Arrangements

✱ Take an example of village.

1. Landless labourers

• No work → Need of Money

↓

Depends on employer

→ High Interest rate

→ Other terms of Conditions.

2. Small farmers

• Take loans from Traders
[Money, Seed etc]

↓

→ High Interest rate

→ Promise to sell Crops

3. Medium landowner

• May receive loans from banks

→ Low Interest rate

→ formal terms of Conditions.

4. Loans from Cooperatives.

→ Members pool their resources for Cooperation in Certain area.

→ They use pooled resources as a collateral to raise funds from bank.

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Formal Sector Credit in India

* Formal Sector loans

→ loans from banks and Cooperatives.



* Reserve bank of India

- Bank to maintain minimum cash.
- Loan should be given to all.
- Banks have to submit information to RBI

v/s

Informal Sector loans.

→ Moneylenders, traders, Employers, relatives, etc.

No organisation which

Supervise the Credit activity → ∴ unfair means of Informal Sector

* Higher Cost of Borrowing ①

∴ Bank and Cooperative should lend more.

* Cheap and affordable credit is crucial for the Country's development.

→ large amount of the Income of borrower goes in the repayment.



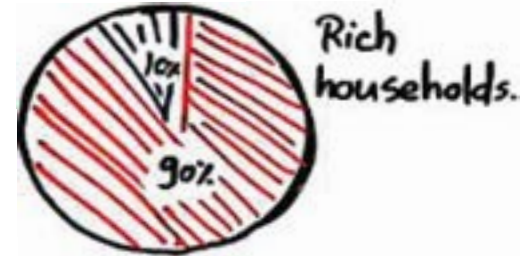
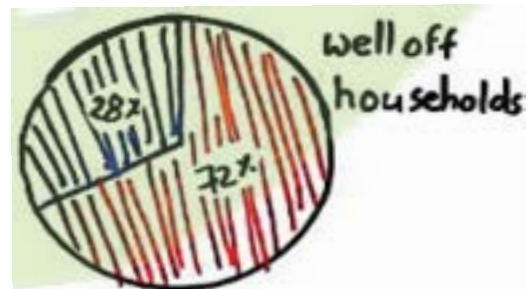
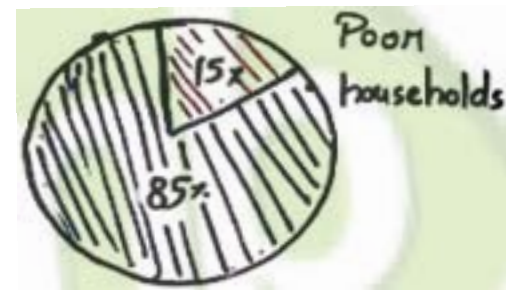
Debt trap

• ↓ Enterprise ☹??

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Formal and Informal Credit: Who gets What??

- ✱ Majority of Poor household gets loan from Informal Sector.
- ✱ Majority of Rich household gets loan from Formal Sector. \Rightarrow What's the problem??



■ = % of loans from Informal Sector

■ = % of loans from Formal Sector

✱ It is necessary that banks and Cooperatives increase their lending particularly in 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.