

Chapter-3

Money and Credit

1 marks Questions

1. The exchange of goods for goods is:

- (i) banker of option**
- (ii) bills of exchange**
- (iii) barter**
- (iv) currency**

Ans. (iii) barter

2. Currency is issued by:

- (i) RBI on behalf of central government**
- (ii) By president of India.**
- (iii) By finance minister**
- (iv) None of them**

Ans. (i) RBI on behalf of central government

3. National Sample Survey Organization is a :

- (i) Commercial bank organization**
- (ii) An organization of World Bank**
- (iii) An organization associated with Indian Standard. Institute**
- (iv) An institution responsible to collect data on formal sector credit.**

Ans. (iv) An institution responsible to collect data on formal sector credit.

4. Gold mohar, a coin so named was brought in circulation by:

-
- (i) Akbar**
 - (ii) Sher Shah Suri**
 - (iii) Ashok**
 - (iv) Shivaji**

Ans. (i) Akbar

5. Which agency is not included in informal loan sector or agency:

- (i) Bank**
- (ii) Village money lender**
- (iii) Trader**
- (iv) Relative of borrower**

Ans. (i) Bank

6. In SHG most of the decisions regarding savings and loan activities are taken by:

- (i) Bank**
- (ii) Members**
- (iii) Non-government organizations**
- (iv) LIC**

Ans. (ii) Member

7. At what interest rate Shamlal borrow money from the village moneylender?

Ans. 5% per month or 60% per annum

8. What is NABARD?

Ans. National Bank for Agriculture and Rural Development.

9. Name the organization that conducted All India Debt and Investment Survey, 2003.

Ans. NSSO

10. Write a special feature of the Gupta coins.

Ans. Gupta coins were not fully circular in shape and a picture of a king or a person was depicted on it.

11. Which is the main source of credit for rich urban households in India?

Ans. Formal Sources of credit are the main source.

12. Name the system by which exchange of goods is done without uses of money?

Ans. Barter System

13. How much percent of rural household in India is dependent upon money lenders for credit during 2003?

Ans. 30 percent.

14. How many members a typical self help group should have?

Ans. 15-20 members

15. Who takes the decision in SHG regarding savings and loan activities?

Ans. Members of Self Help Group

16. How much percentage of total deposits banks hold as cash reserves?

Ans. 15% of total cash reserves

17. Give one special feature that distinguish formal sector from informal sector.

Ans. RBI supervises the functioning of the formal sources of credit while no organization is there to supervises the lending activities if informal sources of credit.

18. Name the system in which double coincidence of wants is essential feature.

Ans. Barter system.

19. Give one reason why the banks and cooperatives are popular lending agencies?

Ans. Because these agencies provide loan at very less interest rates.

20. What is 'Debt Trap'?

Ans. Debt trap is situation in which a borrower is unable pay back the loan and he has to sell his any asset to repay back the borrowed money. Credit in such case pushes the borrower in to a situation from which the recovery is very painful.

21. Name the agency from whom Rama took loan to meet her expenses.

Ans. Her employer, a medium land lord

22. In which year Professor Muhammad Yunus received the Nobel Prize for Peace?

Ans. In 2006

23. Which is the main source of credit for urban households?

Ans. Banks and Cooperatives

24. Name the agency from whom Arun took loan to meet her expenses

Ans. Bank

25. Give one reason to deposit money with the banks.

Ans. To save money and to earn interest

26. Give a special feature the Tughlaq Coins.

Ans. These are square in shape and words of a particular language are written on it.

27. Give the meaning and functions of money.

Ans. Meaning of money: Money may be anything chosen by common consent as a medium of exchange and measure of value.

Functions of money:

(A) Primary functions:

(a) Medium of exchange (b) Medium of value

(B) Secondary functions:

(a) Store of value (b) Standard of deferred payments (c) Transfer of value

(C) Contingent functions:

(a) Basis of credit (b) Liquidity (c) Maximum utilization of resources (d) Guarantor of solvency
(e) Distribution of National Income

28. What monetary system does India follow?

Ans. (a) India has adopted a representative paper currency or the managed currency standard.

(b) The monetary standard is synonymous with the standard money adopted. Paper currency in India is the unlimited legal tender i.e. it is used to settle debts and make payments against all transactions.

(c) RBI (The Reserve Bank of India) issues all currency notes and coins except one rupee notes and coins which are issued by the ministry of finance.

(d) The system governing note issues the minimum reserve system viz. certain quantity of gold is kept in reserve.

3 marks Questions

1. What is banking? Give the main features of commercial banking.

Ans. Banking is defined as the accepting of deposits for the purpose of lending or investment of deposited money by the public, repayable on demand or otherwise and withdrawal by cheque, draft order or otherwise.

Main features of commercial banks are as follows:

- (i) It deals with money, it accepts deposits and advances loans.
 - (ii) It also deals with credit, it has the power to create credit.
 - (iii) It is a commercial institution, whose aim is to earn profit.
 - (iv) It is a unique financial institution that creates demand.
 - (v) It deals with the general public.
-

2. Banks are present everywhere, but it is very difficult for poor households to get loan from the bank than taking a loan from informal source? Why is it so?

Ans. Banks are present everywhere, but it is very difficult for poor households to get loan from the bank than taking a loan from informal source. Poor house hold give preference to informal sources of credit because bank loans require proper documentation and collateral which is rarely available with poor households and it prevents them from getting loans. Sometimes banks hesitate to give loans to poor households. On the other hand, Informal source of credit like Money lenders personally know the borrowers and willing to give loans without collateral. The documentation process of money lenders is not very rigid.

3. Why do lenders ask for collateral while lending?

Ans. Lenders asked for collateral while lending money to the borrowers due to the following reasons:

- A. Lenders demand collateral against loan because it is a security against loan.
- B. Collateral is an asset that the borrower owns and uses this as a guarantee to lender until the loan repaid.
- C. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.
- D. Property such as land titles, deposits with banks, livestock, gold, are some common examples of collateral.

4. How will you justify that credit is a crucial element in economic life?

Ans. Credit plays a crucial role in economic life. Some time it plays a negative role some time positive.

Positive Role:

- 1. Sometimes credit helps to increase earnings makes the person better than before.
- 2. Credit helps the person to enhance his business his economic condition.

Negative role:

- 1. Some time person borrow money to increase his business or for personal use.
- 2. If the borrower fails to pay back the borrowed money, it pushes the person in to bank trap. To repay the loan the borrower has to sell his land or the lender detained the collateral.

5. For what purpose banks keeps a small portion of the deposits as cash with themselves?

Ans. 1. Banks keep only a small proportion of their deposits as cash with themselves.

2. Banks in India these days hold 15 percent of their cash deposits as cash.

3. This is kept as provision to pay the depositors who might come to withdraw money from

the bank on any given day.

4. Since on any particular day, only some of its many depositors come to withdraw cash, the bank is able to manage with this cash.

6. Explain the intermediary function of Money? Elaborate with example.

Ans. Money by providing the crucial intermediate step eliminates the need for double coincidence of wants. It is no longer necessary for the shoe manufacturer to look for a farmer who will buy his shoes and at the same time sell him wheat. All he has to do is find a buyer for his shoes. Once he has exchanged his shoes for money, he can purchase wheat or any other commodity in the market. Since money acts as an intermediate in the exchange process, it is called a medium of exchange.

7. What motives are there to deposit money the bank by depositors?

Ans. 1. Money in banks is safe.

2. Depositor gets interest on it.

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

8. How will you justify that interest on loans is a main source of income of the banks?

Ans. Banks mediate between those who have surplus funds and those who are in need of these funds. It means that a bank mediates between borrowers and depositors. Banks charges very high interest rate on loans than what they offer to the depositors. The difference between what is charged from borrowers and what is paid to depositors is their main source of income. These days' banks started so many schemes just to attract the borrowers. Banks offer loans at attractive interest rate. The main motive behind all these steps of banks is to earn huge profits.

9. How far it is correct to say that the modern currency is without any use of its own as a commodity? Give reasons to support your answer?

Ans. A. Modern forms of money include currency-paper notes and coins.

B. Unlike the things that were used as money earlier, modern currency is not made of precious metals such as gold, silver and copper. And unlike grain and cattle, they are neither of everyday use.

C. The modern currency is merely a paper currency and it is accepted a medium of exchange because it is authorized by the government of the country. So the modern currency is without any use of its own.

10. What facts would you use to explain the role of credit for the development?

Ans. 1. Credit meets the working capital for production.

2. Credit helps the producers to meet the ongoing expenses of production.

3. Farmers and industrialists need credit to expand their business and to purchase new tools and equipments.

4. With the help of credit a person can purchase a house, bike, car and other house hold implements.

11. Mention the requirements a borrower has to fulfill before taking a house loan?

Ans. 1. A Person has to submit documents showing his employment record and salary record.

2. Person has to submit his identity proof and residential proof.

3. Borrower has to produce a guarantor.

4. Collateral is a very important condition which a barrower has to submit in the bank.

12. “I promise to pay the bearer the sum of ten Rupees”. Where is this statement written and what do you understand from this statement?

Ans. 1. This statement is written on the ten rupees note.

2. The meaning of statement is that the Reserve bank of India has been authorized by the Central Government to issue 10 Rupees note and the governor of RBI promises to pay rupees 10 to the person who has this note. Without this authority given by the central government the 10 Rupees note is mere a piece of paper and nothing else. In India the Reserve Bank of India issues currency notes on behalf of the central government.

13. Why there is a need to supervise the banking system by RBI?

Ans. Reserve bank of India supervises the Banking system due to the following reasons:

1. The RBI monitors that the banks maintain a minimum cash balance.
 2. RBI ensures that the banks give loan not just to the profit making businessmen and traders but also to small cultivators, small scale industries and small borrowers.
 3. Banks have to submit the information to the RBI on how much they are lending, to whom, at what interest rates etc.
-

14. Suggest some ways by which small farmers can get cheap credit.

Ans. A. Small farmers can get cheap credit by forming cooperatives. They can form cooperatives which can obtain large loan from the bank.

B. The cooperatives use the bank loan to provide loans to members at cheaper rates than the moneylenders.

C. Small farmers can also get loan from the banks if they are able to provide collateral to the banks.

D. Small farmers can also get loan from Self Help Groups by becoming members of it.

15. Elaborate the reasons why the banks might not be ready to lend to the certain borrowers?

Ans.A. Bank loans require proper documentation and collateral.

B. People who do not apply for loan with proper documentations and collateral are refused

by the bank.

C. The poor people and land less farmers fall in this category.

D. Absence of collateral is one of the main causes for not sanctioning loans to the poor people and land less people.

16. With the help of one example can you explain the role of credit for development?

Ans. 1. Credit helps in increasing economic activities of the borrower.

2. If credit is provided at reasonable rate of interest they can improve their economic condition. This will help them to improve their status.

3. With the help of credit people could increase their agricultural production, do business, set up small scale industries.

Example: During festival season Salim, a shoe manufacturer has received an order from a large trader in town for 3000 pairs of shoes to be delivered in a month time. To complete production on time Salim has to hire a few more workers for stitching and pasting work. He has to purchase the raw material. To meet his expenses Salim obtain loan from two different sources. At the end of the month, Salim is able to deliver the order, make a good profit, and repay the money that he had borrowed. He had also earned huge profit. In this way credit helps Salim to improve his business.

17.What are Self Help Groups? Explain the aims of Self Help Groups.

Ans. Self Help Groups: Self Help Groups is an organization of 15-20 members belonging to one neighborhood, who meet and save money regularly.

Aim of Self Help Groups: The main aim of Self Help Group is to organise rural poor, women in particular and collect their savings and to take loans from the group to meet their needs. The group takes loan from the bank to create self employment opportunities for the members.

18. Which is the most important term of credit according to your views? Explain.

Ans. Collateral is the most important term of credit. Collateral is an asset that the borrower

owns. Such as land, building, vehicles, livestock, deposits with bank are some examples of collateral. These items are used as a guarantee to a lender until the loan is repaid. If the borrower fails to pay the loan the lender has the right to sell the asset or collateral to obtain payment. The poor people and land less people have no collateral. This prevents them to take loan from formal sources of credit. Banks first ask for the collateral than they issue loans to the people. So due to the above reason collateral is the most important term of credit.

19. Name any two formal and informal sources of credit in India? Which one is the most preferred by the farmers of the rural area?

Ans.

1. Cooperatives and commercial banks are the two examples of the formal sources of credit.
 2. Money lenders and friends are the two examples of the informal sources of credit.
 3. The most preferred source of credit to the farmers is money lenders. About 30% of loan requirements are covered from moneylenders by the rural households in India according to the survey of 2003.
-

20. Is there any criterion to make payments without using cash? Explain.

Ans. We have heard about payments being made by cheques instead of cash.

A. For payment through cheque, the payer who has an account with the bank makes out a cheque for a specific amount.

B. A cheque is a paper instructing the bank to pay a specific amount from the person in whose name the cheque has been made.

21. What facts show that modern forms of money are deferent from the early forms of money?

Ans. A. Modern forms of money are including currency-paper notes and coins.

B. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper.

C. And unlike grain and cattle, they are neither of everyday use.

D. The modern currency is without any use of its own.

22. “Cheap and affordable credit is essential for poor households both in rural and urban areas”. In the light of given statement explain the economic and social values attached to it.

Ans. A. Economic value: Cheap and affordable credit will provide the economic development opportunities to the poor households. It will increase the income of the poor. With the help of loan they can start their any small trade. Gradually they will return the credit and become self dependent.

Social Value: The poor can live with dignity in the society if they will become self dependent. They are free from the clutches of money lender and traders of their locality.

23. Suggest some way to increase the approachability of formal sources of credit in the rural areas?

Ans. 1. Government has to take some initiative by making some public welfare policies.

2. More Banks should be open in rural areas.

3. Credit should be provided at low interest rate to the needy and hardworking poor household of the rural areas.

4. Awareness should be spread among the people of rural areas by conducting seminars.

5. The procedure of giving loans should be made easy and simpler.

24. What is meant by Informal Sources of Credit? Mention the drawbacks of this system.

Ans. 1. Informal source of Credit includes the credit from money lenders, friends, traders, employers and relatives. There are no rules and regulations of government are applied on these institutions.

-
2. These institutions charge very high interest rates.
 3. There is no government organization to supervise the functioning of these sources of credit.
 4. The sources of credit some time use unfair means to get their money back.
-

25. Explain the different requirements of rural people for which they need credit.

- Ans.** 1. They need credit to meet the expenses of cultivation.
2. If crop fails they need credit to purchase agricultural implements
 3. They need credit to purchase pesticides and fertilizers.
 4. Sometime they need credit to meet their household expenses.
 5. Sometimes they need credit to repay back the previous credit.
-

26. Explain the different types of objects used as money before the introduction of coins?

- Ans.** A. Before the introduction of coins, a variety of objects was used as money.
- B. For example since the very early ages. Indians used grains and cattle as money.
- C. There after came the use of metallic coins-gold, silver, copper coins- a phase which continued well into the last century.
-

27. Can an Indian shopkeeper refused the payment made in rupees? Give reason to justify your answer?

- Ans.** 1. In India, the Reserve bank of India issues currency notes on behalf of the central government.
2. As per Indian law, no other individual or organization is allowed to issue currency.
 3. Moreover the law legalizes the use of rupee as a medium of payment that cannot be

refused in settling transactions on India.

4. So individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.

28. Can you identify the reasons why banks give interest on the deposits made by people?

Ans. 1. The business of banks totally dependent on the deposits.

2. Banks keeps a small portion of deposits as cash with themselves.

3. Banks use the major portion of deposits to extend loans.

4. Banks charge very high interest of the loans given to the borrowers. This is the main profit of Banks.

5. There is a huge demand for loan for various economic activities. Banks need money to meet the loan requirements.

6. Just to increase the funds and to attract the depositors, banks give interest on the deposits made by people.

29. “Money plays very important role in our everyday life” Explain.

Ans. 1. The use of money expands a very important role in our everyday life. No transaction is possible without the use of money.

2. Goods are bought and sold with the use of money.

3. The objective of each and every person is to earning money. All human beings are working day and night to earn money.

4. If we want to purchase any thing if it is tiny or large we need money.

30. What is Barter system? Explain this system with an example.

Ans. 1. Barter System: In a barter system where goods are directly exchanged without the

use of money, double coincidence of wants is an essential feature. When both parties have to agree to sell, buy and ready to exchange each other's commodities are called double coincidence of wants.

2. Example: A Shoe seller sells his shoe in exchange of wheat. In this case, both parties i.e., shoe seller and wheat producers have to agree to sell and buy each other's commodities. This is barter system and this system requires double coincidence of want.

31. Mention the short comings of the barter system that led to the evolution of money?

Ans. 1. Exchanging of goods was difficult. Demand of two persons for each other's commodity should have risen at the same time, otherwise exchange was not possible. This is known as double coincidence of want.

2. It is a time consuming process.

3. Exact valuation of goods may not be take place at the time of exchange of goods.

4. It is difficult to get the product on the spot and at the right time.

32. Discuss the historical origin of money.

Ans. Historical origin of money:

(a) Animal money: First of all, human beings used animals as a medium of exchange. For example, the Vedic literature tells us that cows or horses were used as money in India.

(b) Commodity money: Before the invention of money several commodities were used as money. Even today in small villages food-grains like, wheat, horse gram, rice etc. are used as commodity money.

(c) Metallic money: Man used metal, like copper, silver, gold, etc. as a medium of exchange. Coins were minted by goldsmith and used as money until paper money was invented.

(d) Paper money: China was the first country that started using representative paper currency standard. Certain quantity of gold is kept as reserve in proportion to currency notes issued at the particular point of time. Coins are also used besides paper currency in our

country.

(e) Credit money: Credit money is also known as bank money. It refers to bank deposits kept by people with banks which are payable on demand and can be transferred from one party to another through cheque/demand drafts/pay orders etc.

33. Highlight the formal and informal credit sources in India.

Ans. (A) Formal credit sources

(i) Commercial Banks (ii) Central Bank (iii) Government Agency (iv) LIC (v) Registered Chit Fund Companies (vi) UTI (vii) Mutual Fund Institution

Above mentioned all formal financial institutions accept savings and sanction loans to the people, companies and other agencies.

(B) Informal credit sources

(i) Local moneylenders: village mahajan and sarafs or gold smiths in the rural areas or in the cities.

(ii) Land lords: this class include the big, middle and small category land-lords. They accept as collateral, title documents of agricultural land, dwelling unit, factories and issue loans to needy persons and companies.

(iii) Self help groups: thrift and credit societies, union of government servants, cooperative societies and farmers, labourers, domestic helpers and housewives organizations. They also accept savings from different people and help their needy members.

(iv) Chit fund companies and private finance companies are very powerful informal financial institutions. Some of them are working very effectively in villages and cities and all pay more interest to depositors than the formal agencies and institutions.

34. What are main functions of Reserve Bank of India?

Ans. The main function of the central bank is to act governor of the machinery of credit in order to secure stability of prices. It regulates the volume of credit and currency, pumping in

more money when market is dry of cash, and pumping out money when there is credit. Broadly a central bank has two departments namely, issue department and banking department.

The main functions are:

- (i) Issue of currency: the central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money.
- (ii) Banker to the government: central bank functions as a banker to the government – both central and state governments. It carries out all banking business of the government.
- (iii) Banker's bank and supervisor: Central Bank acts as banker's bank in three capacities:
 - (i) it is custodian of their cash reserves.
 - (ii) Central Bank is lender of last resort.
 - (iii) It acts as a bank of central clearance, settlements and transfers.
 - (iv) Controller of credit and money supply: it is an important function of a central bank to control credit and money supply through its monetary policy. There are two parts of monetary policy, viz, currency and credit. Central bank has a monopoly of issuing notes and thereby can control the volumes of currency. It controls credit and money supply by adopting quantitative and qualitative measures.

5 marks Questions

1. What is Bank? Can you illustrate the functions of a Bank?

Ans. Banks are institutions which accept the deposits from the public withdraw able by cheques and by demand deposits and advances loans of various types to the borrowers is called a Bank. Following are the functions of Bank:

1. It accepts the deposits from customers. It can be in the form of saving account deposits, current account and fixed deposits.
 2. It gives interests on the savings to the customers.
 3. It provides withdrawal facility to the customers.
 4. It gives loans and advances to the borrowers and charge interest
 5. It provides agency function like transfer of funds, collection of funds, payment of various items, purchase and sale of shares and securities.
-

2. Describe the role played by Grameen Bank of Bangladesh in improvement of the condition of poor particularly women.

Ans. Grameen Bank of Bangladesh was started in the 1970s. It has now over 6 million borrowers in about 40,000 villages. Almost all the borrowers are women and belong to poorest sections of the society. These borrowers have proved that not only are poor women reliable borrowers, but they can start and run a variety of small income generating activities successfully. Thus the Grameen bank has played a significant role in the improvement of the condition of the poor women in Bangladesh. Professor Muhammad Yunus, the founder of Grameen Bank and recipient of 2006 Nobel Peace prize for peace has stated that, "if credit can be made available to the poor people on terms and conditions that are appropriate and

reasonable these million of small people with their millions of small pursuits can add up to create the biggest development wonder”.

3. Highlight the contribution of the Krishak Cooperative societies to overcome the problem of credit in rural areas?

Ans. Besides banks the other major source of cheap credit in rural areas are the cooperative societies. The members of a cooperative pool their resources for cooperation in certain areas.

1. Krishak Cooperatives functions in a village not very far away from Sonpur.
2. It has 2300 farmers as members. It accepts deposits from its members.
3. With these deposits as collateral, the cooperative has obtained a large loan from bank.
4. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

Krishak cooperatives provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses

4. Why do you think that credit plays a positive role in the situation of Swapna, where as it plays a negative role in the situation of Salim? Explain.

Ans. Swapna is a small farmer and grows groundnuts on her three acres. She takes loan from the money lender to meet the expenses of cultivation, hoping that her harvest would help repay the loan. Mid way through the season the crop is hit by pests and the crop fails. Though Swapna sprays her crops with expensive pesticides, it makes little difference. She is unable to repay the moneylender and the debt grows over the year into large. In this way credit put swapna in to worse conditions.

During festival season Salim, a shoe manufacturer has received an order from a large trader in town for 3000 pairs of shoes to be delivered in a month time. To complete production on time Salim has to hire a few more workers for stitching and pasting work. He has to purchase the raw material. To meet his expenses Salim obtain loan from two different sources. At the end of the month, Salim is able to deliver the order, make a good profit, and repay the money that he had borrowed. He had also earned huge profit. In this way credit

helps Salim to improve his business.

5. What is debt trap? Why is it more rampant in rural areas? Give reasons.

Ans. Debt Trap: Debt trap is a condition where the credit pushes the borrower into a situation from which the recovery is very painful, it is called debt trap. Here the borrower fails to repay the borrowed money to the lender and he has to sell his small portion of land to repay the loan. It is rampant in rural areas because of the following reasons:

1. Rural areas small farmers give preference to the informal sources to take loan. The interest rates if these sources are very high.
 2. Farmers take loan for crop production, equipment, fertilizers. If crop fails due to any reason they become unable to pay back the loan.
 3. There is unusually absence of any kind of support to the farmers in case of crop failure.
 4. The main source of their income is production of crops. If it fails than they don't have any other source of income from which they can repay their borrowings.
-

6. Why do you think that the formal sources of credit provide loans at reasonable interest rates?

Ans. A. Formal sources of credit work according to the norms of Reserve Banks of India.

B. The RBI monitors that the banks give loans not just to the profit-making businessmen and traders. But also to small cultivators, small scale industries, to small borrowers etc.

C. Rates of interest are fixed by RBI according to the instructions given by central government. Indian government is a welfare state.

D. The formal sources to provide loan at low interest rate because people can increase their income and help them in the overall development of the country.

7. How would you describe the organization and functioning of Self Help Group?

Ans. 1. Self Help Groups are the groups organized by the poor needy persons themselves,

especially women to fulfill their credit and loan needs. A typical Self Help Group has 15 to 20 members, who meet and save regularly.

2. Saving per member varies from Rs 25 to 100 or more, depending in the ability of the people to save.
3. Members can take small loans from the group itself to meet their needs.
4. The group charges interest on these loans but this is still less than what the money lenders charges.
5. After a year or two, if the group is regular in saving, it becomes eligible for availing loan from the bank.
6. Loan is sanctioned in the name of group and is meant to create self-employment opportunities for the members.

8. Elucidate the developments in the forms of currency since early times.

Ans. A. Barter system was the earliest method to buy and sell products.

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

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

D. There after came the use of metallic coins-gold, silver, copper coins- a phase which continued well into the last century.

E. Modern forms of money include currency- paper notes and coins. Unlike the things that were used as money earlier, modern currency is not made of precious metals. The modern currency is without any use of its own.

F. Currency notes, cheques, are the examples of modern forms of Currency notes.

9. Mention the reasons for which the informal sources of credit preferred in rural area?

Ans. 1. The rural area people are unable to provide collateral.

-
2. There is no need of paper work which the rural poor people are not able to provide.
 3. In rural areas moneylenders, traders and rich landlords have no objection to defaulters even if the previous loan is unpaid.
 4. Poor people hesitant and are not confident about the functioning of the banks.
 5. Banks are not accessible to the villages of poor people.
 6. The procedure by which moneylenders and rich landlords is very simple.
-

10. How does Reserve bank of India lay a crucial role in controlling the formal sector loans? Explain.

Ans. A. The Reserve bank of India supervises the functioning of formal sources of credit of India.

B. The RBI monitors that the banks actually maintain a minimum cash balance out of the deposits they receive.

C. RBI ensures that the banks give loans not just to profit making business and traders but also to small cultivators, small-scale industries, small borrowers etc.

D. Periodically banks have to submit information to the RBI on how much they are lending to whom at what interest rates etc.

E. RBI is the central bank of India.

MCQ

1. The exchange of goods for goods is:

(i) banker of option (ii) bills of exchange (iii) barter (iv) currency

Ans.(iii) barter

2. Currency is issued by:

(i) RBI on behalf of central government (ii) By president of India.

(iii) By finance minister (iv) None of them

Ans.(i) RBI on behalf of central government

3. National Sample Survey Organization is a :

(i) Commercial bank organization (ii) An organization of World Bank

(iii) An organization associated with Indian Standard. Institute

(iv) An institution responsible to collect data on formal sector credit.

Ans.(iv) An institution responsible to collect data on formal sector credit.

4. Gold mohar, a coin so named was brought in circulation by:

(i) Akbar (ii) Sher Shah Suri (iii) Ashok (iv) Shivaji

Ans.(i) Akbar

5. Which agency is not included in informal loan sector or agency:

(i) Bank (ii) Village money lender (iii) Trader (iv) Relative of borrower

Ans.(i) Bank

6. In SHG most of the decisions regarding savings and loan activities are taken by:

(i) Bank (ii) Members (iii) Non-government organizations (iv) LIC

Ans.(ii) Members

7. Formal sources of credit does not include:

(i) Banks (ii) Co-operatives (iii) Employers (iv) LIC

Ans.

8. Security (pledge, mortgage) against loan:

(i) Collateral (ii) Token Coins (iii) Promissory Note (iv) Currency

Ans.

SHORT QUESTION TYPE ANSWERS

1. Give the meaning and functions of money.

Ans. Meaning of money: Money may be anything chosen by common consent as a medium of exchange and measure of value.

Functions of money:

(A) Primary functions:

(a) Medium of exchange (b) Medium of value

(B) Secondary functions:

(a) Store of value (b) Standard of deferred payments (c) Transfer of value

(C) Contingent functions:

(a) Basis of credit (b) Liquidity (c) Maximum utilization of resources

(d) Guarantor of solvency (e) Distribution of National Income

2. What monetary system does India follow?

Ans. (a) India has adopted a representative paper currency or the managed currency standard.

(b) The monetary standard is synonymous with the standard money adopted. Paper currency in India is the unlimited legal tender i.e. it is used to settle debts and make payments against all transactions.

(c) RBI (The Reserve Bank of India) issues all currency notes and coins except one rupee notes and coins⁸⁶ which are issued by the ministry of finance.

(d) The system governing note issues the minimum reserve system viz. certain quantity of gold is kept in reserve.

3. What is banking? Give the main features of commercial banking.

Ans. Banking is defined as the accepting of deposits for the purpose of lending or investment of deposited money by the public, repayable on demand or otherwise and withdrawal by cheque, draft order or otherwise.

Main features of commercial banks are as follows:

- (i) It deals with money, it accepts deposits and advances loans.
- (ii) It also deals with credit, it has the power to create credit.
- (iii) It is a commercial institution, whose aim is to earn profit.
- (iv) It is a unique financial institution that creates demand.
- (v) It deals with the general public.

LONG QUESTION TYPE ANSWERS

1. Discuss the historical origin of money.

Ans. Historical origin of money:

(a) Animal money: First of all, human beings used animals as a medium of exchange. For

example, the Vedic literature tells us that cows or horses were used as money in India.

(b) Commodity money: Before the invention of money several commodities were used as money. Even today in small villages food-grains like, wheat, horse gram, rice etc. are used as commodity money.

(c) Metallic money: Man used metal, like copper, silver, gold, etc. as a medium of exchange. Coins were minted by goldsmith and used as money until paper money was invented.

(d) Paper money: China was the first country that started using representative paper currency standard. Certain quantity of gold is kept as reserve in proportion to currency notes issued at the particular point of time. Coins are also used besides paper currency in our country.

(e) Credit money: Credit money is also known as bank money. It refers to bank deposits kept by people with banks which are payable on demand and can be transferred from one party to another through cheque/demand drafts/pay orders etc.

7. Highlight the formal and informal credit sources in India.

Ans. (A) Formal credit sources

(i) Commercial Banks (ii) Central Bank (iii) Government Agency (iv) LIC

(v) Registered Chit Fund Companies (vi) UTI (vii) Mutual Fund Institution

Above mentioned all formal financial institutions accept savings and sanction loans to the people, companies and other agencies.

(B) Informal credit sources

(i) Local moneylenders: village mahajan and sarafs or gold smiths in the rural areas or in the cities.

(ii) Land lords: this class include the big, middle and small category land-lords. They accept as collateral, title documents of agricultural land, dwelling unit, factories and issue loans to needy persons and companies.

(iii) Self help groups: thrift and credit societies, union of government servants, cooperative

societies and farmers, labourers, domestic helpers and housewives organizations. They also accept savings from different people and help their needy members.

(iv) Chit fund companies and private finance companies are very powerful informal financial institutions. Some of them are working very effectively in villages and cities and all pay more interest to depositors than the formal agencies and institutions.

8. What are main functions of Reserve Bank of India?

Ans. The main function of the central bank is to act governor of the machinery of credit in order to secure stability of prices. It regulates the volume of credit and currency, pumping in more money when market is dry of cash, and pumping out money when there is credit. Broadly a central bank has two departments namely, issue department and banking department.

The main functions are:

(i) Issue of currency: the central bank is given the sole monopoly of issuing currency in order to secure control over volume of currency and credit. These notes circulate throughout the country as legal tender money.

(ii) Banker to the government: central bank functions as a banker to the government – both central and state governments. It carries out all banking business of the government.

(iii) Banker's bank and supervisor: Central Bank acts as banker's bank in three capacities:

(i) it is custodian of their cash reserves.

(ii) Central Bank is lender of last resort.

(iii) It acts as a bank of central clearance, settlements and transfers.

(iv) Controller of credit and money supply: it is an important function of a central bank to control credit and money supply through its monetary policy. There are two parts of monetary policy, viz, currency and credit. Central bank has a monopoly of issuing notes and thereby can control the volumes of currency. It controls credit and money supply by adopting quantitative and qualitative measures