

Short Answer Type Questions

Money and Credit



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NCERT Questions

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

Ans. If a farmer has taken a loan for crop production and due to unavoidable factors there is a crop failure then he cannot repay the loan. Now again he has to take a new loan to repay the earlier loan or sell some part of his land. Therefore here credit has created problems for the borrower as he falls into a debt-trap.

2. How does money solve the problem of double coincidence of wants ? Explain with an example of your own.

Ans. Money solves the problem of double coincidence of wants by acting as a medium of exchange. If a shoe manufacturer wants to sell shoes in a market and buy rice under barter exchange, both parties selling shoes and rice have to agree to sell and buy each others commodities and this creates a problem which is referred to as

double coincidence of wants. This problem is overcome by introduction of money. Here the shoe manufacturer will first exchange shoes that he has produced for money and then exchange the money for rice.

3. How do banks mediate between those who have surplus money and those who need money ?

Ans. Refer to pt. 8 (Important Terms and Concepts).

4. Look at a ten rupee note. What is written on top ? Can you explain this statement ?

Ans. On a ten rupee note, matter written on the top is 'Guarantee by the Central Government'. This note can be used as medium of exchange because it is authorized by the government of the country. It cannot be refused in payment for transactions. Everybody is bound to accept it in exchange for goods and services and in discharge of debts. None can refuse to accept it because its non-acceptance is an offence.

5. Why do we need to expand formal sources of credit in India?

Ans. Formal sector credit which includes loans from banks and cooperatives need to be expanded in India so as to save people and especially poor farmers and workers from the exploitation from the informal sector credit. Informal sector charges a higher interest on loans which means that a large part of the earnings of the borrower is used to repay the loan. A borrower may fall into debt-trap. As compared to it, formal sector lends at a reasonable rate of interest which is very cheap as compared to informal credit. Formal credit can fulfil various needs of the people through providing cheap and affordable credit. RBI also supervises the formal credit through various rules and regulations which ensures that banks give loans to small cultivators, small borrowers, etc. and not just to profit making businesses and traders. All this necessitates expanding formal credit in India so as to reduce dependence on informal sources of credit.

6. What is the basic idea behind the SHGs for the poor ? Explain in your own words.

Ans. Refer to pt. 14 (Important Terms and Concepts).

Additional Questions

7. How money serves as a medium of exchange ?

Ans. Money as the Medium of Exchange. People exchange goods and services through the medium of money. Money acts as a medium of exchange or medium of payments. A person holding money can easily exchange it for any commodity or service that he might want. It acts as an intermediary in the process of exchange.

8. List some items which are kept as collateral security against loans. What happens if a borrower fails to repay the loan ?

Ans. Collateral refers to use of assets by the borrower as a guarantee to a lender until the loan is repaid. Examples of items used ; as collateral security—land titles, deposits with banks, livestock, etc.
The lender has the right to sell the asset or collateral to obtain payment in case borrower fails to repay the loan.

9. What does 'terms of credit' include ?

Ans. While giving loan, the lender specifies certain terms and conditions relating to the loan to be followed by the borrower | which is known as terms of credit. It ; includes interest rate, collateral and documentation required and the mode of repayment, etc.

10. 'Problem of lack of double coincidence of wants exists in barter exchange'. Explain.

Ans. Lack of double coincidence of wants under barter exchange.

'Simultaneous fulfilment of mutual wants by buyers and sellers' is known as double coincidence of wants. In barter exchange, this is lacking, e.g., the producer of wheat may want shoes in exchange for his wheat. But he may find it difficult to get a shoemaker who is also willing to exchange his shoes for jute. Thus a seller has to find out a person who wants to buy seller's good and the same time who must have what the seller wants. This is the main drawback of barter exchange.

11. Explain 'Loans from Cooperatives'.

Ans. Cooperatives accept deposits from its members which becomes the basis (collateral) to obtain huge loan from the banks. These amounts are used to provide loans to members for purposes such as purchase of agricultural implements, loans for cultivation, construction of houses and a variety of other expenses. Another round of lending can take place after existing loans are repaid. There are different types of cooperatives such as farmers cooperatives, weavers cooperatives, etc.

12. Explain the loan activities of banks.

Ans. Refer to pt. 8 (Important Terms and Concepts).

Or

Explain the process showing loan activities of Banks.

13. Write a note on 'Formal Credit in India'.

Ans. Refer to Ans. 5 (3 Marks).

14. What are the differences between formal and informal sources of credit ?

Ans. Refer to pts.12 and 13 (Important Terms and Concepts).

15. Why should credit at reasonable rates be available for all ?

Ans. Informal credit tries to exploit the poor farmers and workers by charging a very high rate of interest on loans and imposing unreasonable terms of credit, at present richer households avail the benefits of formal credit and poor have to depend on the informal sources due to some weak point like absence of collateral security etc-Therefore it should be ensured that formal credit should provide credit at reasonable rates to all and especially poor ones to help them fulfil their needs.

16. The modern currency is without any use of its own as a commodity. Why is it accepted as money ?

Ans. Modern currency is without any use of its own as it not made of precious metal such as gold, silver and copper and unlike grain and cattle it is not of daily use. But still it is accepted by all as a medium of exchange because the currency is authorised by the government of the country. Everybody is bound to accept it. Its non-acceptance is an offence.