

Money and Credit

Very Short Answer Questions

1. Why are transactions made in money?

Ans. A person holding money can easily exchange it for any commodity or service that he or she might want.

2. What is 'double coincidence of wants'?

Ans. What a person desires to sell is exactly what the other wishes to buy.

3. What is a barter system?

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

4. How does the use of money make it easier to exchange things?

Ans. If money is used in an economy by providing the crucial intermediate step, it eliminates the need for double coincidence of wants and becomes a medium of exchange.

5. What was used as money in early ages in India?

Ans. Since the very early ages, Indians used grains and cattle as money.

6. Which metals were used for making coins in India in later stages?

Ans. Gold, Copper, Silver coins were used in later stages in India.

7. What does modern form of money include?

Ans. Modern form of money includes currency—that is paper notes and coins.

8. Does modern currency have any use of its own?

Ans. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. And unlike grain and cattle they are neither of everyday use. The modern currency is without any use of its own.

9. Why is modern currency accepted as medium of exchange?

Ans. It is accepted as a medium of exchange because the currency is authorised by the government of the country.

10. In India who is authorised to issue notes and currency?

Ans. In India "Reserve Bank of India" issues currency notes on behalf of the central government.

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 Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

12. What is a 'cheque'?

Ans. A cheque is a paper instructing the bank to pay a specific amount from the persons account to the person on whose name the cheque has been made.

13. What do the banks do with the deposits which they accept from the public?

Ans. (i) Banks keep only a small proportion of their deposits as cash with themselves.
(ii) Major portion of the money deposits are used to extend loans.

14. How do banks act as a mediator?

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

15. What is the main source of income of the banks, if they forward the depositor's money to the lender?

Ans. Banks charge a higher rate of interest on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

16. 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.

17. What do the farmers in rural areas take loans for?

Ans. Farmers take loan for crop production which involves considerable costs on seeds, fertilisers, pesticides, water, electricity, repair of equipment etc.

18. What is a 'debt trap'?

Ans. Credit in some cases pushes the borrower into a situation from which recovery is very painful.

19. What is 'collateral'?

Ans. Collateral is an asset that the borrower owns (such as land, building, vehicle, live stocks, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

20. What are the main 'terms of credit'?

Ans. Interest rate, collateral and documentation requirement and the mode of repayment together comprise what is called 'terms of credit'.

21. What are informal sectors of loan?

Ans. Informal sectors include moneylenders, traders, employers, relatives and friends, etc.

22. What are the formal sectors of loan?

Ans. Formal sectors of loan include all the banks and cooperatives.

23. What report is submitted periodically by all the banks to RBI?

Ans. Periodically, banks have to submit information to the RBI on how much they are lending, to whom and at what rate.

24. Why do informal sectors charge interest rate with their own risk?

Ans. There is no organisation which supervises the credit activities of lenders in the informal sector. Therefore, they lend at whatever interest rate they choose. No one stops them from using unfair means to get their money back.

25. Why do banks and cooperatives need to lend more?

Ans. Banks and cooperative societies need to lend more. This would lead to higher incomes and many more could then borrow cheaply for a variety of needs. Cheap and affordable credit is crucial for the country's development.

26. Why should credit at reasonable rates be available to all?

Ans. At present, it is the rich households who receive formal credit whereas the poor have to depend on the informal sources. It is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.

27. What prevents the poor from getting bank loans?

Ans. Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevent the poor from getting bank loans.

28. What are SHGs?

Ans. They are Self Help Groups formed by rural poor women.

29. For what purposes do SHGs give loans to its members?

Ans. Small loans are provided to the members for releasing mortgaged land, for meeting working capital needs like buying seeds, fertilisers, raw materials like bamboo and cloth for housing materials for acquiring assets like sewing machines, handloom, cattle etc.

30. Give any two advantages of SHGs.

Ans. (i) SHGs help borrowers overcome the problem of collateral.
(ii) They can get timely loans for a variety of purposes and at a reasonable rate