



Money and Banking

Trading without Money

Mohan has come with *ragi* to Shyamala to buy mangoes. Shyamala made two equal heaps of the *ragi*. She gave Mohan a few mangoes that together weighed as much as one of the *ragi* heaps. The rate at which the mangoes were exchanged is – ‘half as much as the grain’. There can be other rates too, such as ‘equal to the grain’.



In some villages of Adilabad district, children exchange toys made from bamboo for rice. This system of exchanging goods directly against other goods without the use of money is called the Barter system.

The blacksmiths used to mend the blades of ploughs or wheels of a bullock cart not for cash but for a fixed amount of grain after every harvest.

- Are you aware of any exchanges that are done without money?
- You may have bought things in exchange of old clothes, plastic,

newspapers, hair, paddy etc. Discuss the transaction.

In another example, Gopal has a goat and he wants to exchange it for rice. He goes to Seenu. Seenu wants a goat but he has jowar and not rice. Gopal meets Ramu who produces paddy. But Ramu does not want to exchange his paddy for the goat, he wants to buy jowar.

Complete the following table:

	Gopal	Seenu	Ramu
Wishes to buy			
Wishes to sell			

- What can we conclude from the above table?
- Explain in your own words why exchange is not possible between Gopal and Seenu.
- Will the use of money help? Fill in the blanks.

If Gopal exchanges his goat with for money, then uses this to buy rice from Now can use this money to buy from Seenu.

- Ask your parents how washermen, barbers, *neeti kaavalikaru* were paid for their work in villages and towns.

Exchange with Money

If we use money, for the exchange of goods, there will be no problem in exchanging commodities. Then, a person who has something in excess will not have to necessarily find another person who needs it and has something also to give in return. Money acts as an intermediary or an in-between step, something that is held for sometime because it can be used further. We saw these situations in the above examples. Money can be exchanged for goods because it is acceptable to all. Those who wish to sell something will accept money as a payment and similarly, those who wish to buy something will only have to offer money in exchange. Any commodity or service can be exchanged for money, and money can be exchanged for any commodity or service. Money, by itself, may have no use. It is needed because of the role it plays in the process of exchange. One can also borrow and pay back in the form of money.

- How can money be used in the transactions between Gopal, Seenu, and Ramu? Explain with the help of a flow chart.
- If the role of money, as described above, was stated as a medium of exchange, would you agree? Explain.
- In a barter system, how do people in your area pay to a person who cuts their hair? Discuss.

Barter System has another problem.

Gopal: How many bags of rice will you give for this goat?

Seetaiah: Four bags.

Gopal: I Need Two Bags of Rice. will you give wheat for the remaining two bags of Rice.

Seetaiah: I don't have wheat, if you want I can give you edible oil, pulses.

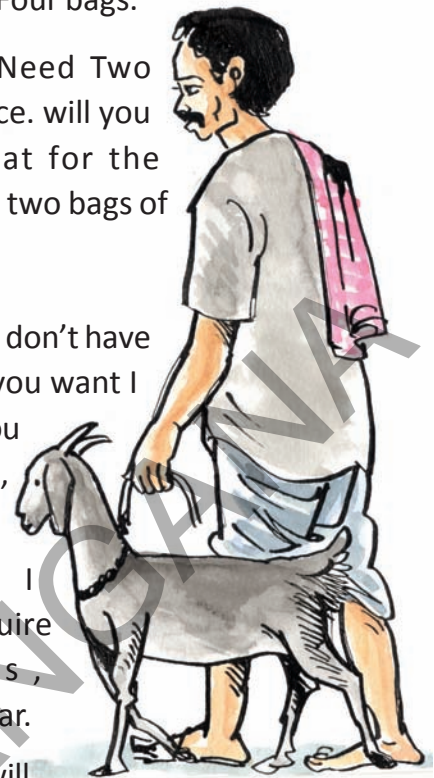
Gopal : I don't require pulses, I want sugar.

Gopal: I will give

Seetaiah: I will give

Under the barter system, to make the exchange possible, it is necessary to determine the value of a commodity in terms of another. If one has to do this for many commodities, it can be quite cumbersome and does not facilitate exchange or trading. It is not convenient. Other forms of exchange also evolved that we will read about later. However, in some situations, barter system is still used and found useful, especially in rural areas.

- For how much rice should Gopal exchange his goat?
- If money was not used by you or any of the traders in your *santalu* or weekly market, imagine what would happen? Describe the situation in a paragraph.



- Do you think money can act as a measure of value of the goods and services? Explain.

Gopal has a goat, and wants to buy a matchbox. Is it a fair exchange for him? He cannot give a part of the goat for a matchbox, because the goat is not divisible. But, with money, you can buy small items also. Money is divisible – there are Rupees and Paise.

You can see that commodities like vegetables should be exchanged immediately, because they are perishable. This problem is solved when commodities are sold for money. Money is durable, and it can be kept for future use. Also, holding of commodities like sheep, goats or bags of rice requires a lot of space and maintenance and you need carts and trucks to carry your goods for exchange to the market. However, money does not require much space to keep, it can be carried about anywhere in a bag or purse. It is portable.

Evolution of Money

People all over the world practised barter system and also encountered the problems with this system. When trading became more widespread, more goods were bought and sold. They were also transported over long distances. In such circumstances, use of some form of money evolved in all societies. For example, in very early ages, people used grains and cattle as money. But, these were difficult to transport and stock. Durability was also a problem since they could be attacked by disease etc.

Over time, people preferred scarce and attractive metals as a medium of exchange. Copper, bronze, silver and gold are durable, can be divided into parts and be carried around. Since they were scarce, they became acceptable by all. However, some problems remained and new problems came up. For every exchange, the metal had to be weighed and later on, traders were not sure about the quality of the metal. What one might get in exchange may not be pure gold or silver. After some time, there was a serious problem of trust in the quality of metal that was used as money for exchange.

This provided an opportunity for various rulers of the kingdoms to come up with a system that was suitable for them and also solved some of the above problems. This led to minting of coins with standard size, weight, and purity from the Royal Mint. It was not necessary to weigh them each time, there was greater assurance of purity and they were easy to carry. In the Roman period, “Basant”- a gold coin, was the standard currency and in the Mauryan period, “Pana” a silver coin, was the standard currency. Coins became the acceptable form of money by traders and people.

- Why were metals preferred for use as money?
- Do you think minting of coins was a good idea?
- In what ways would minting of coins benefit the rulers? Can you think of three different reasons?



Fig 7.1: Coins of different periods, kingdoms

Paper Money and Emergence of Banks

People who had to buy and sell in large quantities had to carry large amounts of gold or silver coins for their transactions. So, they started looking for safe places to keep them. They went to goldsmiths, where their money would be protected. The goldsmiths charged fees for keeping their valuables safe and making them available whenever they wanted. This practice became popular and the trust in some of the goldsmiths or shroffs grew.

These goldsmiths would also give loans and had branches in many cities, leading to a new system of paper money or *hundis*. For example, Somu is a machinery tools merchant of Vijayawada, he has to go to Hyderabad to buy machinery from Chandu. It is dangerous to carry gold coins for payment all the way to Hyderabad. So, he keeps his ten gold coins with a goldsmith, and takes a receipt issued in his name. The receipt would say, “I promise to pay 10 gold coins”. Now, Somu buys the machines from Chandu. He gives the goldsmith’s receipt to Chandu and tells him to collect the 10 gold coins from the goldsmith as payment. But he goes to Sayeed who sells iron and steel, and gives him Somu’s receipt for 10 gold coins in

exchange for steel. He tells Sayeed that he can collect the gold from that same goldsmith. Since the goldsmith is known to all and is trusted for always paying up the receipts that are brought to him, Sayeed accepts the receipt easily. Somu’s original receipt has now circulated in the economy, and is being transferred from one person to another and all accept this as a means of payment. Because of the trust created, such receipts began to work as a new form of money.

The early bankers in India such as Jagatseths of Bengal, Shahs of Patna, Arunji Nathji of Surat, Chettiers of Madras enjoyed such wealth and reputation that their receipts – paper money called *hundis* - were accepted throughout the country and outside too.

Let us look at a different story about the emergence of banks. In 1606, Amsterdam was a major trading centre in Europe. Here, there were 846 types of silver and gold coins recognised by the government that could be accepted for exchange. However, traders were always suspicious of each other – everyone would doubt the purity and weight of these coins. The merchants of Amsterdam got together and solved this problem in a unique manner. They created a bank owned by the city. A

merchant would take his coins and the bank would weigh and find out the amount of pure metal in the coins and give him a receipt for this, open an account and deposit the coins in the bank. Whenever required, he could ask for the pure metal. He could also transfer some of this to another person, if required. This was quite convenient for traders.

The bank operated honestly and it was trusted by all the traders. They would ask for receipts of the bank or a transfer to their account, instead of the coins. The traders knew that the bank would give them pure metal on demand. Deposits at the bank became a new form of money. The business of the bank grew and it worked successfully for two centuries. The operation of bank deposits as money had evolved.

- Why do the receipts of the goldsmith work as money?
- Can you think of situations when this trust of the goldsmith could break?
- What was the problem faced by the traders in Amsterdam and how did they find a way out?
- After two centuries, this bank collapsed. Can you guess what could have been the reasons for this? Discuss.
- Read the promise on paper notes used today. Who is making the promise and to whom? Why is this important? Discuss.

BANKING

Modern Banks

- Have you ever been inside a bank? What are the names of some of the banks you know?
- If you step inside a Bank, you will find some employees sitting at different counters with their computers/ ledgers and dealing with the customers. You can also observe people depositing money at some counters and withdrawing money at other counters. There is one cabin where the manager sits. What do these bank employees do?

Commercial Banks

Banking is a business activity where money deposits are collected from the public, and these deposits can be

transferred from one person to another. Banks also give loans to businessmen, industrialists, farmers and individuals. Such banks are called Commercial Banks. Let us examine both these aspects.

Cash Deposits

Deposits refer to the money that people keep in the banks. There are different types of deposits. Let us look at some of them in the following sections:

Savings Deposits or Savings Accounts:

Geeta has saved Rs. 5000 from her salary and wants to keep it safely. She goes to a branch of State Bank of Hyderabad which is close to her home and opens a Savings Account. She gets some interest on

this money and her money is also safe. Most importantly, she can withdraw this money any time she wants. The bank promises to pay on demand.

Find out :

- How would she withdraw the money from an ATM?
- How can she withdraw money from her bank branch? where she has an account.

Why do we save money in a bank?

- Money kept at home does not earn interest and has no security. But, money kept in a bank account does. If you keep money in the bank, it will grow. How do you think will the money grow?
- Money is safe in a bank, But, it is important to check if the bank in which you intend to keep your hard earned money is licensed or not. A person should not share his/her bank account details with anybody. Protecting your bank account is also very important.

Basic Saving Bank Deposit Account (BSBDA)

- It can have "zero" or very low minimum balance.
- There are no restrictions like age, income, amount etc. criteria for opening for individuals.
- Maximum of four withdrawals in a month is allowed including ATM withdrawals.
- The services available include deposit and withdrawal of cash; receipt / credit of money through electronic payment channels or cheques.
- PM JAN DHAN YOJANA : PMJDY

Scheme is the latest mega scheme initiated by the Government of India in August 2014. The new scheme aims to achieve financial inclusion by ensuring that every poor household in the country to get easy access to credit and open bank accounts, with zero balance.

Under the scheme the government is giving rupay debit card along with Rs 1 lakh accident insurance coverage and overdrafting facility.

Small Account

If 'Basic Savings Bank Deposit Account' is opened on the basis of simplified Know Your Customer (KYC) norms, the account would additionally be treated as a 'Small Account' and would be subject to conditions stipulated for such accounts.

- Total credits in such accounts should not exceed one lakh rupees in a year.
- Maximum balance in the account should not exceed fifty thousand rupees at any time.
- The total amount of debits by way of cash withdrawals and transfers will not exceed ten thousand rupees in a month.
- Small accounts are valid for a period of 12 months initially which may be extended by another 12 months if the person provides proof of having applied for an Officially Valid Document

Current Account Deposits

Many businessmen, shopkeepers, companies and traders have a large number of daily transactions, earnings and payments. They have to withdraw money multiple times to buy goods, pay labourers



Fig 7.2: Inside a Bank

etc. Similarly, large business offices get money from customers who purchase their goods and services every day and they pay to those who have supplied them various things or done some work for them daily. For many requirements of these kind, banks have a separate type of account called Current Account. There are no restrictions on the number of times you can deposit or withdraw the money from a current account. Transactions can be made by way of cheque, so there is no risk of handling huge amounts of cash. However, the bank does not pay any interest on money deposited in a current account but will collect service charges.

Sarayu's father started a Recurring Deposit of Rs. 500 in a bank every month for a period of 5 years. He earns some interest which he will get along with the principal amount he deposited after the completion of 5 years.

The interest he earns on the recurring deposit is less than the interest on fixed deposits.

Fixed Deposit

Manaswini's grandfather wanted to give her a gift. So, he gave her a Fixed Deposit certificate for Rs. 10,000. "It will grow enough in the next five years to pay for your college admission," grandfather said. How can it grow?

The money in a Fixed Deposit or a Term Deposit cannot be withdrawn from the bank for a fixed period of time. It could be one year, two, five or seven years. The rate of interest is higher on a fixed deposit.

- When should one opt for fixed deposits for savings?
- How much money will Manaswini get from her Fixed Deposit in five years if the rate of interest is 8%?
- Suppose she needs the money urgently for some medical treatment. Can she withdraw it from the Fixed Deposit at the bank? What will happen?

What is the difference between Saving A/c and Current A/c?

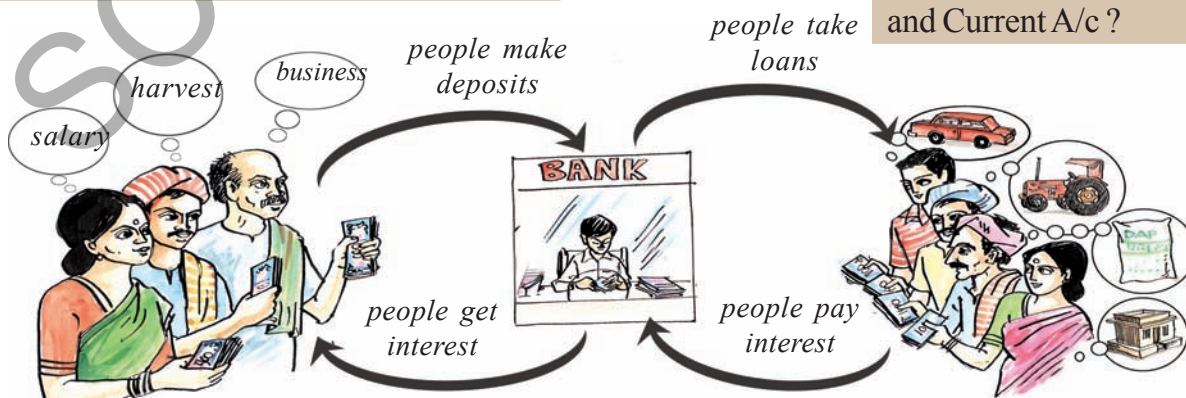


Fig 7.3: Functioning of a Bank

How does the Banking system work?

Cheque deposited into a bank account enables one to transfer the money into another account. This facility operated by the banking system makes deposits work like money. Bank deposits are money.

In many towns and cities representatives of all banks meet on each day to settle what each bank has to pay to the other and receive from the other. Cheques that have been verified are handed over to each other. One of the banks works as the Clearing Bank where all the banks have an account. The payments and receipts between banks are done by this Clearing Bank.

In the present system, all banks and most of their branches are linked by computers. All deposit holder accounts and their signatures can be accessed by the branches anywhere. Hence, representatives don't have to meet nor do banks have to send cheques to the outstation branches. Transaction between one bank and another is done through interlinked computers. This makes the whole system work faster and in an easier manner.

Cheques

Now a days, cheques are widely used for making payments and receiving money. When you want to give money to someone, you write a cheque in that person's name. When you want to send money to someone, who lives in a different place, you can send a cheque to the person by post. You can also use your cheque to transfer money electronically into the other person's account through a bank. For business purposes, where money is frequently received and paid, cheques are very important as a medium for transactions.

You can see an example (Fig: 7.4) of how a cheque is written. Suresh is an account holder in the State Bank of Hyderabad. He has to pay Rs. 1,75,000/- to Kancharla Sujatha. So, he gives her a crossed cheque in the name of Kancharla Sujatha.

- Draw the picture of a bank cheque in your notebook and pay Rs.1,50,000 to your friend sitting next to you.
- Why is a crossed cheque safe? Discuss.

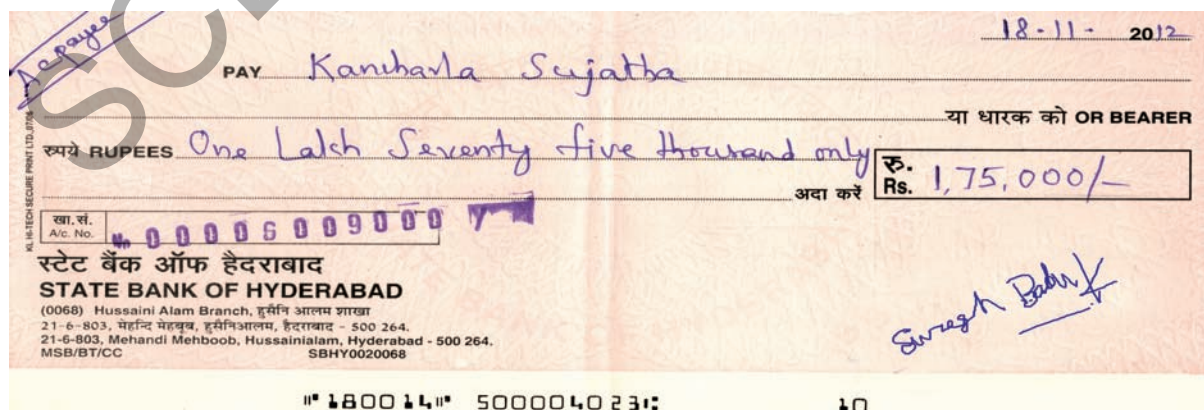


Fig 7.4: A model cheque

- If Suresh Babu wants to deposit Rs.1,75,000 electronically into Kancharla Sujatha's account through his bank, how can this be done? What more information would he require? Visit a bank and find out.
- Discuss and make a list of the different payments that people make electronically without using a cheque.

incase of D.D. there is no chance to return because the amount is already paid, D.D. is acceptable for all payments.

- What is the difference between D.D. and Cheque ?
- Why is D.D. more acceptable than a Cheque ?

Demand Draft (D.D.)

Shloka, a student applied for Intermediate admission. She has to submit the application along with the Demand Draft to the authorities.

When you have to make payments to organisations in advance to avail the services, you have to pay the money through a D.D. Banks collect some amount as service charge and issue a D.D. Example Shloka wants to D.D. for Rs.1000/- she has to pay Rs. 1030/- including Rs.30/- as service charges. The exchange value is equal to the D.D. amount. The D.D. enables the authorities to encash immediately unlike the cheque. The cheque may some times be returned due to insufficient funds,

Bank Accounts for Minors

- A Savings / Fixed / Recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian.
- Minors above the age of 10 years are allowed to open and operate savings bank accounts independently, subject to bank's risk management systems that are in place
- Additional banking facilities like internet banking, ATM / debit card, cheque book facility etc., are allowed. But, minor account holders can withdraw only amount that is deposited in his or her account.

Fig 7.5: A model Demand Draft

Loans

A bank is a business enterprise. It has to pay interest to its depositors, pay salary to its employees, has to buy and maintain equipment, pay rent and bear all the cost of running a bank and also make profit. So how does it earn revenue?

Deposits are the source through which money saved by people comes into the bank. As long as the depositors trust that the bank will pay them their money on demand, people don't rush to withdraw their deposit as cash. Many people withdraw money at the beginning of the month. If the depositors are farmers, there will be a greater demand for cash during certain seasons (rainy season). Hence, over a period of time, banks realised that they require only a small proportion of the deposits so that they can always keep the promise of payment on demand. The trust is maintained if people can withdraw their money as cash or use bank deposits for payments.

On the other side, banks also give loans to people. People will pay these loans back with interest. Banks also give loans to the government and earn some interest. The interest earned on loans given by the bank is the source of revenue.

- Will the same rate of interest be charged for all types of borrowers from a bank?
- What will happen if some borrowers do not repay the bank loan?
- Why do the banks charge interest on the loans they give more than the interest they pay for deposits?

Types of Loans

Banks give loans and advances to different sections of the public like traders, industrialists, students (educational loans), farmers, artisans etc. Let us examine some of them.

Rahim is a small farmer who grows paddy on his 4 acres of land. He needed money for fertilisers and seeds at the time of sowing. So, he took an agriculture loan of Rs 10,000 from the bank. He mortgaged (gave as security) his harvest. After selling the harvest, Rahim will return the amount of loan to the bank along with interest within one year.

Leela wants to buy a flat. She takes a housing loan from a bank Rs. 8 lakhs by mortgaging her flat. A certain amount is deducted from her salary every month and paid to the bank. She will recover the ownership papers of her flat after fully paying off her bank loan.

Rohit is an employee in a private organization. He wants to buy a two wheeler to go to office. He takes a vehicle loan from a bank for rupees 50,000/- by submitting required documents he took loan for 4 year period. A certain amount is



Fig 7.6: SHG members' meeting

deducted from his salary every month which is called Equi Monthly Installment (EMI). Bank interest rates vary from loan to loan and depend upon loan period also.

Shanta is a member of the Self Help Group (SHG). She has taken a loan from the bank to repair her house. She does not have to keep any assets as security. The group will ensure that loans are paid back by its members.

Different people can obtain loans for different requirements under some rules and conditions of the bank. Interest rate, security, documents required and the mode of repayment are all part of the conditions for the loan.

- Why do banks ask for security while lending?
- Which is a better source of loans – Banks or Money Lenders? Why?
- How is SHG loan different from an individual loan?



Fig 7.7: A person withdrawing money from an ATM

Internet banking

Now a days, computers and internet are used everywhere. In most banks, human and manual teller counters are being replaced by the Automated Teller Machine [ATM]. Banking activity is being done with computers, internet and other electronic means of communication which is known as electronic banking or internet banking. Most of the banks provide debit card, credit card, net banking and mobile banking services to their customers to use the banking services online.

Internet banking helps transfer funds from one customer's bank account to another customer's bank account, buying and selling goods, investments, or repaying loans, payments of electricity, phone and other utility bills.

With internet banking, a customer is saved from hassles of travelling, paper work and other kinds of formalities. In just a few clicks, people can access their account and transfer funds, pay bills etc. People with hectic schedules prefer Internet Banking.

Mr. Raghu has an account in State Bank of India (SBI), Secunderabad branch and has registered for online banking facility. To pay his phone bill, Mr. Raghu logs into the SBI website by entering his user name and password. He selects the option for online payment of phone bill, enters the phone number and the amount to be paid. The amount will be debited from his SBI account and an invoice will be generated. Paying bills online saves time and energy and also ensures that the bills are paid in time.

DIGITAL PAYMENT OPTIONS

1. NEFT (National Electronic Funds Transfer): This service can be used by an individual or an organisation to transfer any amount of money from their account to another account.
2. RTGS (Real Time Gross Settlement): This service is used for high value transactions. An individual or organisation can transfer an amount of Rs.2 lakh and above to any other account.
3. IMPS (Immediate Payment Service) helps people to transfer money from the bank through a mobile hand set, internet banking or through ATMs, instantly. Customer must have his mobile number linked with his bank account to use this facility. The customer can utilise this service throughout the year including on bank holidays.
4. UPI (Unified Payment Interface): To transfer money through this, there is no need to enter receiver's name, his account number, bank name and its IFSC Code (IFSC) etc. It is enough, if we know their VPA (Virtual Payment Address) or Aadhar number. By entering any of these, we can transfer the money that we wish to send instantly. Bharat

Interface for Money (BHIM) is an app that lets you make easy and quick payment transactions using UPI.

5. USSD (Unstructured Supplementary Service Data) is a mobile banking service based for small value transactions. It can be used on all phones including basic feature phones. This facility can be used as per one's convenience to any one and to anywhere.
6. Rupay Cards: Payments can also be made using credit or debit cards. In order to address the needs of Indian consumers, National Payments Corporation of India has launched the Rupay Card which offers numerous advantages like lower costs, safety and security. All account holders under Prime Minister Jan Dhan Yojana are eligible for Rupay Cards

For the first 4 services, IFSC and internet are necessary. But for USSD, without IFSC and internet, transactions can be done.

IFSC (Indian Financial System Code): Each bank has a special 11 digit code. First 4 alphabets indicate bank code, remaining numbers indicate the branch.

Keywords

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|-----------|-------------------|-------------|------------|
| 1. Barter | 2. Forms of money | 3. Deposits | 4. Savings |
| 5. Loan | 6. Interest | 7. Cheque | |

Improve your learning



1. Can there be any difficulties or disadvantages in keeping money in a bank? Think and write.
2. In what ways have cheques made exchange of money more convenient?
3. Only a part of the total deposits is kept as cash in the bank-safe. Why is this so and how does this benefit the bank?
4. If many loans are written off (that is, borrowers are not required to pay back the money), how will this affect the working of the bank?
5. Read the paragraphs under the heading 'Types of Loans' and answer the following question: What sort of loans are more common in your area?
6. Suppose, this year, the rainfall is poor and the crop yield is only half as much as was originally expected. Some argue that farmers should be asked to pay back only half the amount they have taken as loans. Others argue that full amount should be repaid, keeping in view the next year's crop. In your opinion, what should the bank do and why?
7. People have to pay a higher interest on loans than the interest they receive on a fixed deposit for the same time-period. Why do you think this is so?
8. Do you feel that the loans taken from SHGs are helpful to the members? How?

Discussion : Invite the local postmaster/postman to your class and interact with him or her on banking services available in post offices.

Project:

1. Visit a bank or invite a bank employee to the school and find out:
 - a) How to open a savings account in your name?
 - b) How are cheques cleared by the banks?
 - c) How do banks make NEFT/RTGS/IMPS/UPI/MMID Transfers?
 - d) What security precautions are necessary for an ATM to work?
 - e) Apart from cheques, people can also exchange money through Bank Drafts/online transaction etc. Find out more about the different modes of exchange.
 - f) For the person receiving the money, what is the advantage of online transaction compared to a cheque?
 - Students can be encouraged to ask questions related to money, currency, coins and functioning of banks - as many as possible.
2. Please visit www.rbi.org.in and read comics on financial inclusion/ financial literacy themes.