

Money and Credit

Fastrack« Revision

- ▶ Money is an important concept. It has evolved through various forms and some of the modern forms of money are also linked to the banking system.
- ▶ Money acts as an intermediary in the exchange process and hence, it is called a medium of exchange. It is the most important function of money.

Knowledge BOOSTER

 Money has eliminated the problem of double coincidence of wants, found in barter system of exchange. In barter system, goods were exchanged with goods.

- ▶ Prices of all commodities and services can be expressed in terms of money. This also facilitates the process of exchange through money.
- ▶ In the earlier times, a variety of objects such as grains and cattle and different metallic coins made of gold, silver, copper were used as money. Modern forms of money include currency i.e., paper notes and coins.

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 Since these deposits are withdrawable on demand, therefore they are referred to as demand deposits.

- ▶ Money is accepted as a medium of exchange because the currency is authorised by the Government of India.
- ▶ The Reserve Bank of India is the only legal authority that issues currency notes on behalf of the Central Government in India. No other individual or organisation is allowed to issue currency.
- ▶ The other form in which people hold money is in the form of deposits with banks.
- ▶ People deposit extra money in banks by opening a bank account so that they can earn interest and avoid the danger of theft. The money can be withdrawn as many times as desired by the depositors.
- ▶ A cheque is a written instruction given to a bank by an account holder to pay a specific amount to the person in whose name the cheque has been issued. The facility of cheques against demand deposits makes it possible to directly settle the payment without the use of cash.
- ▶ Banks keep only a small proportion of their deposits as cash with themselves, approximately 15% to 30%, as a provision to pay the depositors who might come to withdraw money from the bank on any given day.
- ▶ The banks use the remaining portion of the deposits to extend loans. In this way, the banks mediate between those who have surplus funds (the depositors) and those who are in the need of these funds (the borrowers).

- ▶ Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods or services in return to a promise of future payment. Availing credit can affect a person or an organisation either positively or negatively, depending upon the terms of credit.
- ▶ The terms of credit include interest rate, collateral, documentation requirements and mode of repayment and duration of credit contained in the loan agreement.
- ▶ When the credit or loan is taken from banks or cooperatives, it is called formal sector loan. The Reserve Bank of India (RBI) supervises the functioning of formal sources of loans.

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 Security against the loan to recover the money if the borrower fails to repay it, is called collateral.

- ▶ Cheap and affordable credit provided by banks and cooperatives help in the country's development by fulfilling the credit needs of farmers, businessmen, small scale industries, etc.
- ▶ Informal sector of credit includes moneylenders, traders, employers, relatives and friends. Informal sector credit activities are not supervised or controlled by the RBI. Informal lenders charge much higher interest on loans and there is no one to stop them using unfair means to get their money back.
- ▶ Credit availed from formal and informal sources, by different sections of society, in rural and urban areas, differ substantially.
- ▶ 85% of the loans taken by poor households in the urban areas are from informal sources. In the rural areas, on an average, 50% credit needs are fulfilled from the informal sector.
- ▶ The rich households avail cheap credit from formal sector whereas the poor households have to pay high interests for borrowing from informal sector. Also, there is unequitable distribution of formal credit.
- ▶ Self Help Groups (SHGs) consist of certain members who pool their savings and constitute a fund which is further used for loans and advances.
- ▶ Typical SHGs have 15-20 members, usually belonging to the same village. They meet regularly and pool their savings. Saving per member can vary from ₹ 25 to ₹ 100 or more.
- ▶ SHGs are becoming popular because they help the borrowers to overcome the problem of lack of collateral. They can get timely loans for variety of purposes and at a reasonable interest rate from them.



Practice Exercise



Multiple Choice Questions

Q 1. Modern forms of money includes:

- a. currency
- b. deposits with banks
- c. Both a. and b.
- d. None of these

Q 2. Which one of the following is not a limitation of the barter system?

- a. Lack of double coincidence of wants
- b. Certain products can't be divided
- c. Most often double coincidence of wants is not available
- d. None of the above

Q 3. Which one of the following was not a traditional form of money?

- a. Grains
- b. Paper notes
- c. Cattle
- d. Gold coins

Q 4. Money is accepted as a medium of exchange because:

- a. it is authorised by the Government of India
- b. it is issued by the Reserve Bank of India
- c. it is legalised as a medium of payment in India
- d. All of the above

Q 5. A porter making pots, wants to exchange pots for wheat. Luckily, he meets a farmer who has wheat and is willing to exchange it for the pots. What is this situation known as?

- a. Incidence of wants
- b. Double coincidence of wants
- c. Barter system of wants
- d. None of the above

Q 6. A cheque like currency notes act as:

- a. cash
- b. a store of value
- c. a medium of exchange
- d. a demand deposit

Q 7. is a paper instructing the bank to pay a specific amount to the person in whose name it has been issued.

- a. Demand draft
- b. Cheque
- c. Pay-in-slip
- d. Withdrawal slip

Q 8. Banks keep approximately per cent as a provision to pay the depositors who might come to withdraw their funds.

- a. 10
- b. 15
- c. 20
- d. 25

Q 9. Banks charge a interest rate on loans than what they offer for deposits.

- a. higher
- b. lower
- c. same
- d. None of these

Q 10. A deposit with a bank that can be withdrawn whenever the depositor likes to do so, is termed as:

- a. a demand deposit
- b. a time deposit
- c. a fixed deposit
- d. a legitimate deposit

Q 11. Which one of the following options describe 'collateral'? (CBSE SQP 2021 Term-1)

- a. Double coincidence of wants
- b. Certain products for barter
- c. Trade in barter
- d. Asset as guarantee for loan

Q 12. Which of the following does not constitute a part of informal credit in India?

- a. Commercial Bank
- b. Moneylenders
- c. Friends and relatives
- d. Zamindars

Q 13. The functioning of the formal sources of credit are supervised by:

- a. Government of India
- b. Reserve Bank of India
- c. Ministry of Finance
- d. Zamindars

Q 14. Read the information given below and select the correct option.

Mohan is an agricultural labourer. There are several months in a year when he has no work and needs credit to meet his daily expenses. He depends upon his employer, the landowner for credit who charges an interest rate of 5 per cent per month. Mohan repays the money by working physically for the landowner on his farmland.

(CBSE SQP 2021 Term-1)

Over the years, his debt will:

- a. Increase, because of increasing interest and non-payment of monthly amount.
- b. Remain constant, as he is working for the employer but is repaying less.
- c. Reduce, as amount equivalent to his salary is being counted as monthly repayment.
- d. Be totally repaid, as he is repaying the debt in the form of physical labour.

Q 15. Which among the following lenders will possibly not ask the borrower to sign the terms of credit?

- a. Banks
- b. Moneylenders
- c. Cooperatives
- d. Private agencies

Q 16. Which among the following organisations issues the currency notes in India? (CBSE 2023)

- a. The Central Government of India
- b. The NITI Aayog
- c. The Finance Ministry
- d. The Reserve Bank of India

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Banks in India these days hold about 15 per cent of their deposits as cash in order to pay the depositors who come to withdraw money from bank on any day.

Q 17. What do people do with the extra cash in hand? Choose the most correct option from the following:

- a. They deposit it with one of the Informal lenders.
- b. They deposit it with an NGO.
- c. They deposit it with the bank manager.
- d. They deposit it with the banks by opening a bank account in their name.

Q 18. When do people have the provision to withdraw money? Choose the most appropriate option from the following:

- a. They can withdraw money at the time of severe illness.
- b. They cannot withdraw money before it reaches to its maturity level.
- c. They can withdraw money as and when they require.
- d. Both a. and b.

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People deposit money with the banks by opening a bank account in their name and receive an amount as interest from the bank on this deposit which can be withdrawn by them as and when they require it.

Q 19. Money borrowed from bank and cooperative societies comes under which source of credit?

- a. Informal
- b. Formal
- c. Semi-formal
- d. None of these

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Formal sources of credit include Banks and the Cooperative Societies which provide credit at the low rate of interest to the borrowers and are regulated and supervised by the RBI on behalf of the Central Government in India.

Q 20. Most of the agricultural labourers depend upon loans from informal sector. Which of the following statements about this sector is correct?

(CBSE SQP 2021 Term-1)

- a. They are government bodies to supervise informal sector.
- b. Moneylenders ask for a reasonable rate of interest.
- c. Cost of Informal loans to the borrower is quite high.
- d. Moneylenders use fair means to get their money back.

Q 21. Find the incorrect option: (CBSE 2019)

- a. Demand deposits share the essential features of money
- b. With demand deposit, payments can be made with cash
- c. Demand deposits are a safe way of money transformation
- d. Demand deposit facility is like cheque

Q 22. Banks do not give loans:

- a. to small farmers
- b. to marginal farmers
- c. to industries
- d. without proper collateral and documents

Q 23. Formal sources of credit do not include:

- a. banks
- b. cooperatives
- c. employers
- d. Both a. and b.

Knowledge BOOSTER

Employers, moneylenders, neighbours, friends, relatives, etc., fall under informal sources of credit who charge high interest on loans that they give to the borrowers.

Q 24. Terms of credit do not include:

- a. demand deposits
- b. Interest rate
- c. collateral
- d. mode of repayment

Q 25. Which among the following issues currency notes on behalf of the Central Government? (CBSE 2020)

- a. State Bank of India
- b. Reserve Bank of India
- c. Commercial Bank of India
- d. Union Bank of India

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The Reserve Bank of India is the monitoring agency and is the central bank of India that issues currency on behalf of the Government of India. No other person/authority can issue any legalised currency.

Q 26. A trader provides farm inputs on credit on the condition that farmers will sell their crop produce to him at prices so that he could sell them at prices in the market.

- a. high, medium
- b. low, high
- c. medium, high
- d. high, low

Q 27. A shopkeeper Sudha has to make a payment to the wholeseller and writes a cheque for a specific amount to the wholeseller. The wholeseller takes this cheque and deposits it in his own account in the bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is completed without any payment of cash.

Analyse the information given above, considering one of the following correct option:

- a. Check payment
- b. Interest on deposits
- c. Demand deposit
- d. Money transfer

Q 28. Which one of the following options is not correct about a typical self-help group?

- a. It has 15-20 members
- b. It does not give a man its membership
- c. Its members usually belong to one neighbourhood
- d. Saving per member varies in it

Q 29. In a self-help group, most of the decisions regarding saving and loan activities are taken by which one of the following? (NCERT)

- a. Bank
- b. Members
- c. NGOs
- d. All of these

Q 30. A typical self-help group has members.

- a. 10-15
- b. 15-20
- c. 20-25
- d. 25-30

Q 31. Grameen Bank of Bangladesh was started in the:

- a. 1960s
- b. 1970s
- c. 1980s
- d. 1990s

Q 32. Find the correct option:

- a. Collateral is what pushes the lender into a painful debt trap situation
- b. Collateral is the amount that RBI gets from other banks
- c. Collateral is an asset that the borrower owns and uses as a guarantee to a lender against the amount borrowed
- d. Collateral does not include jewellery

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Collateral acts like a guarantee to a lender until loan is repaid. If borrower fails to repay the loan, the lender can reimburse his loan by selling the collateral or confiscating it.

Q 33. Match column I with column II and choose the correct options:

Column I	Column II
A. Collateral	1. Cooperative banks
B. Terms of credit	2. An asset offered as security for getting credit
C. Informal sector	3. Mode of repayment and rate of interest to be paid
D. Formal sector	4. Relatives

- | | | | | | | | |
|------|---|---|---|------|---|---|---|
| A | B | C | D | A | B | C | D |
| a. 2 | 3 | 4 | 1 | b. 3 | 2 | 4 | 1 |
| c. 2 | 4 | 3 | 1 | d. 4 | 3 | 1 | 2 |

Q 34. Choose the correct option:

Column I	Column II
1. Barter system	A. Loans from banks and cooperatives
2. Debt-trap	B. Commodity for commodity exchange system
3. Formal sector loans	C. What a person desires to sell is exactly what the other wishes to buy
4. Reserve Bank of India	D. Supervises the functioning of banks

- a. 1-A
- b. 2-B
- c. 3-C
- d. 4-D

Q 35. How are cheques beneficial against demand deposits?

- a. DDs share the essential features of money
- b. Cheques are linked to the working of modern banking system
- c. There is direct settlement of payments without the use of cash
- d. Cheques are the best means of payment against deposits

Q 36. Rampur is an area where 80% people borrow money from the bank while 10% don't borrow and the rest 10% take it from their friends, relatives or local moneylenders. Where will Rampur be situated?

- a. In an Urban region
- b. Semi-Urban area
- c. In a Rural region
- d. Capital of a country

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Rampur is located in an area with proper access to banks, however not all the people are convinced borrowers from the bank. In an urban area, most people go to bank while some people might also resort to friends and relatives for money, due to small or extremely urgent need.

Q 37. Read the information given below and select the correct option:

A shoe manufacturer, M. Salim has to make a payment to the leather supplier, Prem and writes a cheque for a specific amount. This means that the shoe manufacturer instructs his bank to pay this amount to the leather supplier. The leather supplier takes this cheque and deposits it in his own account in the bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is complete without any payment of cash.

Identify what happens after the transaction between Salim and Prem:

- a. Salim's balance in his bank account increases and Prem's balance increases
- b. Salim's balance decreases and Prem's balance increases
- c. Salim's balance increases and Prem's balance decreases
- d. Salim's balance decreases and Prem's balance also decreases

Q 38. Analyse the following table that shows source of rural households in India in the year 2003 and answer the question that follows:

Source	Share
Moneylender	30%
Cooperative societies	27%
Commercial Bank	25%
Other (merchant, relatives, etc)	18%

Analysing the table given, what is the share of formal sector in total credit?

- a. 25% b. 27%
c. 52% d. 48%

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Informal source of credit includes moneylenders, traders, employers, relatives and friends while others such as cooperative societies and commercial banks come under formal sector.

Q 39. Shyam borrows money from the village moneylender at an interest rate of 5 per cent per month. Arun living in the same village has taken a bank loan for cultivation at 8.5 per cent per annum interest rate to be repaid over three years. Rama, an agricultural labourer in the village depends on her employer for credit. The landowner charges an interest rate of 5 per cent per month. Rama repays the money by working for the landowner. Analyse the information given and identify who has taken credit from organised sector.

- a. Arun b. Rama
c. Shyam d. All of these

Q 40. Rita has taken a loan of ₹ 7 lakhs from the bank to purchase a car. The annual interest rate on the loan is 14.5 per cent and the loan is to be repaid in 3 years in monthly instalments. The bank retained the papers of the new car as collateral, which will be returned to Rita only when she repays the entire loan with interest.

Analyse the loan information given above, considering one of the following correct option:

- a. Mode of re-payment b. Terms of credit
c. Interest on loan d. Deposit criteria

Q 41. Mahesh is a small farmer. He has taken a loan of ₹ 2 lakhs from the moneylender to meet the expenses of cultivation. The annual interest rate on the loan is very high, so he is unable to repay the loan and he is caught in a debt. He has to sell a part of the land to pay off the debt.

Analyse the loan information given above, considering one of the following correct option:

- a. Terms of credit b. Interest on loan
c. Debt-trap d. Mode of re-payment

Q 42. If 'R' wants cloth, which 'S' has, then 'R' should have a commodity that 'S' wants in exchange for the cloth. In the absence of such coincidence of wants, there will be no exchange.

Identify the situation and choose the right option that will definitely help 'R' and 'S' to eliminate this situation. (CBSE SQP 2023-24)

- a. Double coincidence of want. Exchanging commodity for commodity.
b. Double coincidence of want. Credit on commodity.
c. Double coincidence of want. Loan on commodity.
d. Double coincidence of want. Money.

Q 43. Miss 'S' approached a bank nearby to avail loan for her own business, as well as a self-help group which is operating in her village, the bank rejected her loan application whereas the self-help group accepted to support her by providing the loan.

Which one of the following documents is required by the bank, but not required by the self-help group to approve Miss 'S's' loan application for her business? (CBSE SQP 2023-24)

- a. Application for loans
b. Arrangement letter
c. Document on collateral
d. Demand promissory note and take delivery letter

Q 44. Read the statements carefully and choose the correct option:

Statement (I): Banks charge a higher interest rate on loans than what they offer on deposits.

Statement (II): The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

- a. Statement (I) is correct and (II) is incorrect.
b. Statement (I) is incorrect and (II) is correct.
c. Both statements are incorrect.
d. Both statements are correct.

Q 45. Read the statements carefully and choose the correct option:

Statement (I): Collateral is an asset that the borrower owns and use this as a guarantee to a lender until the loan is repaid.

Statement (II): Collateral is given as the lender can sell the collateral to recover the loan amount if the borrower fails to repay the loan.

- a. Statement (I) is correct and (II) is incorrect.
b. Statement (I) is incorrect and (II) is correct.
c. Both statements are incorrect.
d. Both statements are correct.



Assertion & Reason Type Questions

Directions (Q.Nos. 46-50): In the following questions given below, there are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the correct option:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
c. Assertion (A) is true, but Reason (R) is false.
d. Assertion (A) is false, but Reason (R) is true.

Q 46. Assertion (A): Currency is considered to be important for a country.

Reason (R): Currency gives nation a purchasing power and facilitates trade.

- Q 47. Assertion (A): Banks keep a small proportion of their deposits as cash with themselves.
Reason (R): This is kept to meet the loan requirements of the people.
- Q 48. Assertion (A): No individual or organisation is allowed to issue currency notes in India.
Reason (R): In India, only RBI issues currency notes on behalf of the Central Government.
- Q 49. Assertion (A): Not all the money that is deposited in the bank by the depositors is kept by the banks themselves.
Reason (R): They use it to further extend loans to people, so that the difference between interest earned and interest given can be further invested and the chain will continue to go on.
- Q 50. Assertion (A): Banks have to submit information to the Finance Minister periodically on how much they are lending, to whom, at what interest rate, etc.
Reason (R): The Finance Minister monitors the banks in actually maintaining cash balance.

Answers

- | | | | | |
|---------|---------|---------|---------|---------|
| 1. (c) | 2. (d) | 3. (b) | 4. (d) | 5. (b) |
| 6. (d) | 7. (b) | 8. (b) | 9. (a) | 10. (a) |
| 11. (d) | 12. (a) | 13. (b) | 14. (a) | 15. (b) |
| 16. (d) | 17. (d) | 18. (c) | 19. (b) | 20. (c) |
| 21. (d) | 22. (d) | 23. (c) | 24. (a) | 25. (b) |
| 26. (b) | 27. (c) | 28. (b) | 29. (b) | 30. (b) |
| 31. (b) | 32. (c) | 33. (a) | 34. (d) | 35. (c) |
| 36. (a) | 37. (b) | 38. (c) | 39. (a) | 40. (b) |
| 41. (c) | 42. (d) | 43. (c) | 44. (d) | 45. (d) |
| 46. (a) | 47. (c) | 48. (a) | 49. (b) | 50. (d) |

Source Based Questions

Source 1

Read the source given below and answer the questions that follows by choosing the most appropriate option:

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 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. Then, why is it accepted as a medium of exchange? It is accepted as a medium of exchange because the currency is authorised by the government of the country.

In India, the Reserve Bank of India issues currency notes on behalf of the Central Government. As per India law, no other individual or organisation is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India. No individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.

- Q 1. The source given above relates to which of the following options?
a. Barter system
b. Double coincidence of wants
c. Currency
d. None of the above
- Q 2. Money in modern times comes in different forms. These include:
a. grains and cattle
b. cowrie shells and stones
c. gold and silver coins
d. currency notes and coins
- Q 3. What is the most important function of money?
a. It is used in banking transaction
b. It is used in payment of loans
c. It is used in stock market exchange
d. It is used as a medium of exchange
- Q 4. Which of the following banks of India issues currency notes on behalf of the Central Government?
a. Bank of India
b. Central Bank of India
c. State Bank of India
d. Reserve Bank of India
- Q 5. Money is accepted as a medium of exchange because:
a. it is authorised by the Government of India
b. it is issued by the Reserve Bank of India
c. it is legalised as a medium of payment in India
d. All of the above
- Q 6. Two statements are given in the question below as Assertion (A) and Reason (R). Read the statements and choose the appropriate option.

Assertion (A): Money acts as an intermediary in the process of exchange.

Reason (R): Money helps to facilitate trade.

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
c. Assertion (A) is true, but Reason (R) is false.
d. Assertion (A) is false, but Reason (R) is true.

Answers

1. (c) 2. (d) 3. (d) 4. (d) 5. (d) 6. (b)

Source 2

Read the source given below and answer the questions that follow:

Getting a loan from bank is much more difficult than taking loan from informal sources. Absence of collateral security and documentation prevents the poor from getting bank loans.

Self-help group is a group of people usually belonging to one neighbourhood having same social and economic backgrounds. They meet and save money regularly as per their ability. Members of the group can take small loans from the group itself to meet their needs. The group charges interest less than moneylenders on these loans.

After one or two years, if the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of group and is meant to create self-employment opportunities.

Q 1. What is the most essential requirement for taking loan from informal services?

Ans. The most essential requirement for taking loan from informal services is collateral security.

Q 2. What facilities do the members have who are in the same group?

Ans. Members who are in the same group can take small loans from the group itself to meet their needs.

Q 3. What benefits are there for a self-help group that is regular in savings?

Ans. Self-help group that is regular in savings are entitled to raise loan from bank in the name of SHG.

Source 3

Read the source given below and answer the questions that follow:

A House Loan

Megha has taken a loan of ₹ 5 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in 10 years in monthly instalments. Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest. (CBSE 2022 Term-2)

Q 1. From which source of credit Megha has taken loan?

Ans. Megha has taken from the bank i.e., the formal source of credit.

Q 2. Explain the terms of credit given in the source.

Ans. The terms of credit given are interest rate, collateral documentation requirements, mode of repayment and duration contained in the loan agreement.

Interest rate	— 12 per cent
Collateral	— Papers of the new house
Documentation	— Employment records and salary documents
Mode of repayment	— Monthly instalments
Duration	— 10 years



Very Short Answer Type Questions

Q 1. What is barter system?

Ans. Barter system is a system of exchange in which goods are directly exchanged without the use of money.

Q 2. Study the picture and answer the question that follows:



Which limitation of barter is depicted in the above picture?

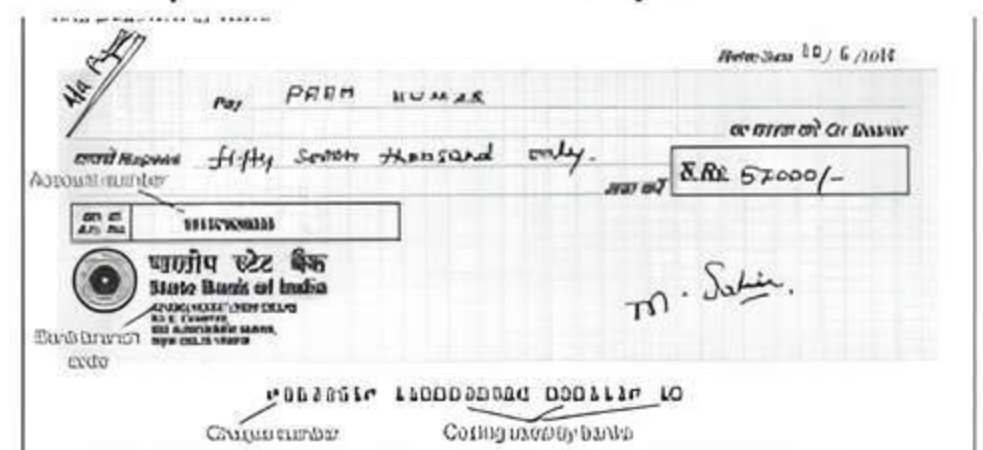
Ans. Lack of double coincidence of wants, is depicted in the above picture.

Q 3. Explain the inherent problem of the 'barter system'.

(CBSE 2017)

Ans. The inherent problem of the barter system is that it is not necessary that when one person is willing to exchange his/her goods, the person he/she wants to exchange with is also willing to do the same.

Q 4. See the picture and answer the question:



Who is the drawer and who is the payee?

Ans. Drawer: M. Salim

Payee: Prem Kumar

Q 5. Why is money called 'medium of exchange'?

Ans. Money acts as an intermediary in the exchange process and hence it is called a medium of exchange.

Q 6. How is money beneficial in transactions? (CBSE 2017)

Ans. Money has made transactions easy as it solves the problem of double coincidence of wants by acting as a medium of exchange.

Q 7. How do double coincidence of wants arise?

(CBSE 2022 Term-2)

Ans. Double coincidence of wants arises when there is no medium of exchange. In such a case the buyer has to make a search for the seller who also wants to buy the same good which the buyer itself offers for exchange.

Money has solved this problem by working as a medium of exchange. The seller can sell the goods in the market in return for money and buy the goods he wants to buy in return for the money.

Q 8. Explain the meaning of currency. (CBSE 2019)

Ans. Currency is the modern form of money which consists of paper notes and coins. For example, Rupees, Dollar, Yen, Pound, etc.

Q 9. Give one example each of modern currency and older currency. (CBSE 2019)

Ans. Examples of modern currency are paper bills/notes, coins, credit cards, etc., whereas examples of older currency are coins made of precious metals like gold or silver and also terracotta coins, etc.

Q 10. What can be the alternative mode of payment in place of cash money?

Ans. Cheques and demand deposits are the two alternative modes of payment that can be used in place of cash money.

Q 11. What is a cheque?

Ans. A cheque is a paper instructing the bank to pay a specific amount to the person in whose name the cheque has been issued.

Q 12. Who supervises the functioning of formal sources of loans?

Ans. The Reserve Bank of India supervises the functioning of formal sources of loans.

Q 13. Why are demand deposits considered as money?

(CBSE 2019)

Ans. Demand deposits are considered as money because they can be withdrawn from the bank as required and are accepted as a means of payment by way of a cheque instead of cash.

Q 14. How do the deposits with banks become their source of income?

Ans. Banks use a major portion of its deposits to extend loans to people for which they charge high interests and so the deposits with banks become their source of income.

Q 15. What do you understand by credit?

Ans. Credit, in other words, loans refer to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.

Q 16. Define collateral.

Ans. Collateral refers to assets or personal property that a borrower uses to secure a loan. If the borrower defaults on a loan secured with collateral, the lender can seize his property to repay the debt.

Q 17. Why do banks or lenders demand collateral against loans? (CBSE 2019)

Ans. Banks or lenders demand collateral against loans as it is used as a guarantee to a lender until the loan is repaid.

Knowledge BOOSTER



A collateral is any physical or monetary asset which a lender uses as a guarantee against money he/she has lent to the borrower.

Q 18. Give any two examples of informal sector of credit. (CBSE 2018)

Ans. Moneylenders, traders, landowners, relatives and friends are examples of informal sector of credit.

Q 19. Why is the supervision of the functioning of formal sources for loans necessary?

OR

Explain the reason for necessity of supervision by the Reserve Bank of India of formal sources of loans. (CBSE 2019)

Ans. The supervision of the functioning of formal sources of loans is necessary due to the following reasons:

- (i) To ensure that banks and cooperatives lend loans at low interest rates which benefits all.
- (ii) To check that banks extend loans not just to profit making businessmen and traders but also to small borrowers, cultivators and small scale industries.



Short Answer Type Questions

Q 1. How does money solve the problem of double coincidence of wants? Explain with an example.

(NCERT)

Ans. Double coincidence of wants means that the exchange of commodities should take place in such a way that one person's requirement can be fulfilled by another person.

For example, if a shoe manufacturer wants to sell shoes in the market and buy wheat, he will first exchange shoes that he has produced for money and then exchange the money for wheat. It would be difficult if the shoe manufacturer had to directly exchange shoes for wheat, without the use of money. He would have to look for a wheat growing farmer who not only wants to sell wheat but also wants to buy the shoes in exchange.

Q 2. 'The rupee is widely accepted as a medium of exchange'. Explain.

Ans. The rupee is widely accepted as a medium of exchange in India because of the below mentioned reasons:

- (i) Rupee is authorised by the Government of India.
- (ii) No other individual or organisation is allowed to issue currency but only RBI can issue them on behalf of Central Government.
- (iii) The law legalises the use of rupee as a medium of exchange. Because of this, nobody can refuse payment in rupees.

Q 3. Why is it necessary to increase a large number of banks mainly in rural areas? Explain. (CBSE 2019)

OR

Why is it necessary for the banks and cooperative societies to increase their lending facilities in rural areas? Explain. (CBSE 2015)

Ans. It is necessary for the banks and cooperative societies to increase their lending facilities in rural areas due to the following reasons:

- (i) The cost of informal loans is much higher which leads to a debt-trap. Due to high cost of borrowing, people who wish to start a new enterprise may not do so.
- (ii) The loans from informal lenders carry a high interest rate and make less increase in the income of borrowers. So, it is necessary that banks and cooperatives should increase their lending particularly in the rural areas in order to reduce the dependence of poor on informal sources of credit.
- (iii) It is important that formal credit sources like banks are distributed more equally in rural and urban areas so that the poor can benefit from the cheaper loans.

COMMON ERROR

Students do not mention about the rate of borrowing interest in the answers.

Q 4. Describe the significance of the Reserve Bank of India. (CBSE 2020)

OR

State the role of Reserve Bank of India.

(CBSE 2022 Term-2)

Ans. The significance/role of the Reserve Bank of India is as follows:

- (i) RBI is the only authorised body that can issue currency notes on behalf of the Central Government.
- (ii) RBI provides Central and State Governments with banking facilities and supervises all other commercial banks in the country in actually maintaining cash balance.
- (iii) RBI acts as the custodian of foreign exchange reserves in the country to maintain the value of the rupee in the global economy.

(iv) RBI supervises the functioning of formal sources of loans.

(v) RBI sees that the banks give loans not just to profit-making business and traders but also to small cultivators.

Q 5. Explain why the banks do not lend credit to certain borrowers. (CBSE 2021-22 Term-2)

Ans. The banks do not lend credit to certain borrowers for the following reasons:

- (i) Banks require proper documents and collateral as security against loans. Some persons fail to meet these requirements.
- (ii) The borrowers who have not repaid previous loans, the banks might not be willing to lend them further.
- (iii) The banks do not want to lend those entrepreneurs who are going to invest in the business involving high risks.

Q 6. Why do we need to expand formal sources of credit in India?

Ans. We need to expand formal sources of credit in India for the following reasons:

- (i) It helps to save people from the exploitation of informal sector.
- (ii) Formal sector charges a low interest on loans.
- (iii) It provides cheap and affordable credit.
- (iv) It helps to save from debt-trap.
- (v) RBI supervises the formal sector credit through various rules and regulations. This ensures that banks give loans to small cultivators, small borrowers, etc., and not just to profit-making business and traders.

Q 7. What steps have been taken by the government to improve rural credit system?

Ans. The government has taken following steps to improve rural credit in India:

- (i) Banks have been encouraged to set up branches in rural areas, so that banking and credit facilities can be provided to rural population.
- (ii) The government has introduced micro credit scheme under which poor people can avail credit from the banks at nominal rate of interest.
- (iii) The condition for availing credit from government banks has been made easier.

Q 8. Explain any two features each of formal sector loans and informal sector loans.

Ans. Two features of formal sector loans are:

- (i) These loans generally carry a low rate of interest.
- (ii) These loans are generally secured.

Two features of informal sector loans are as follows:

- (i) These loans generally carry a high rate of interest.
- (ii) These loans are generally unsecured.

Q 9. Why are service conditions of formal sector loans better than informal sector? Explain. (CBSE 2019)

Ans. The service conditions of formal sector loans are better than informal sector due to the following reasons:

- (i) The formal sector works under the supervision of Reserve Bank of India in which rate of interest is very low.
- (ii) Commercial banks and cooperative societies serve as the main source of formal source of credit by providing ensured services and having a set protocol for delivering loan services.
- (iii) Formal sector comprises of interest rate, collateral, documentation requirement and the mode of repayment which form the terms of credit. The terms of credit vary substantially from one credit arrangement to another depending on the nature of the lender and the borrower.



TiP

Compare the need of collateral and documentation in addition to the service conditions of both the sectors.

Q 10. 'Credit can play a positive role.' Justify the statement with arguments. (CBSE 2019)

OR

Explain the role of credit for economic development.

(CBSE 2020)

Ans. Credit plays a positive role in economic development in the following ways:

- (i) Credits or loans sanctioned by banks help the industrialists as capital investments to start up a new venture without worrying about the lack of cash. This creates employment opportunities thereby contributing in the economic development of the country.
- (ii) Loans help the farmers to buy new seeds before the sowing season which becomes the source of capital to them in need and have a better earning.
- (iii) Credit helps to boost many other sectors as well as to buy houses, vehicles and generate demands. This helps in the economic development. Even the borrower is capable of repaying the loans in instalments.

Q 11. Explain the three important 'terms of credit'?

(CBSE 2021-22 Term-2)

Ans. A loan or credit is subject to certain conditions that the borrower must agree to. Such conditions are called terms of credit.

The three important 'terms of credit' are as under:

- (i) A specified rate of interest.
- (ii) Security against the loan to recover the money if the borrower fails to repay it. This security is called collateral.
- (iii) The assets accepted as collateral are land or property, vehicles, livestock, standing crops and bank deposits.
- (iv) A borrower needs to submit certain documents like proofs of identity, residence, employment and income to avail a loan.
- (v) The lender reserves the right to sell the collateral in case of non-repayment to recover the loan amount. (Any three)

Q 12. Describe the importance of formal sources of credit in the economic development. (CBSE 2019)

Ans. Formal sources of credit are important in the economic development in the following ways:

- (i) Formal sources are supervised by RBI which monitors that the banks actually maintain cash balance and provide loans to small cultivators and farmers too. But there is no organisation to supervise the credit activities of lenders in informal sector.
- (ii) The rate of interest in formal sectors is decided by RBI which is normally low.
- (iii) Development of formal sources of credit prove to be useful in case borrowers don't have enough cash balance in that bank which do not want to give loans to them or if they have already procured a loan or if they don't have anything that they can use as a collateral.



TiP

Students are required to mention the rules and regulations of banks and RBI.

Q 13. 'Credit can play a negative role.' Justify the statement with arguments. (CBSE 2019)

Ans. The given statement can be justified with the following arguments:

- (i) The cost of informal loans is much higher and leads to a debt-trap. The industrialists who want to start a new enterprise by borrowing may not do so due to the high cost of borrowing.
- (ii) Most of the loans from informal lender carry a very high interest rate and do little to increase the income of the borrowers.
- (iii) Credit is not beneficial to the borrower if money is not utilised profitably. Sometimes, money borrowed by farmers to buy raw material turns to be a failure as he is not able to repay the amount and falls into a debt-trap.

Q 14. How is the concept of self-help groups important for poor people? Give your view point. (CBSE 2016)

OR

Explain the function of 'self-help group'.

(CBSE 2022 Term-2)

Ans. The concept of self-help group is important for poor people in the following ways:

- (i) It helps women to become financially self-reliant.
- (ii) It helps borrowers to overcome the problem of lack of collateral.
- (iii) It helps to get timely loans for a variety of purposes and at a reasonable interest rate.
- (iv) The regular meetings of the group provide a platform to its members to discuss and act on various social issues such as health, nutrition, domestic violence, etc.

Q 15. Imagine yourself to be XYZ, a member of a women self-help group. Analyse the ways through which your group provides loan to the members.

(CBSE 2022, Term-2)

Ans. The group can provide loan to the members in the following ways:

- (i) Self-help groups pool their savings.
- (ii) A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly.
- (iii) Saving per member varies from ₹ 25 to ₹ 100 or more, depending on the ability of the people to save.
- (iv) Members can take small loans from the group itself to meet their needs.
- (v) The group charges interest on these loans but this is still less than what the moneylender charges.
- (vi) After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank.



Long Answer Type Questions

Q 1. 'Bank plays an important role in the economic development of the country'. Support the statement with examples.

(CBSE 2020)

Ans. Bank plays an important role in the economic development of the country in many ways:

- (i) **Provide Loans:** Banks keep only a small proportion of their deposits as cash with themselves and use major portion to expand loans for various profitable events.
- (ii) **Provide Deposits:** Banks accept the deposits and pay an amount as interest on the deposit which mobilises savings.
- (iii) **Acts as Mediator:** Banks act as a mediator or link between savers and investors.
- (iv) **Helps in Development:** Banks provide loans in rural areas for crop production ultimately resulting in the development of many places.
- (v) **Provide Credits:** Banks provide credits which are an agreement that the lender supplies the borrower with money, goods or services in return for the promise of future payment. A large number of transactions in our day-to-day activities involve credits in one form or the other.

Q 2. How does credit play a positive and negative role? Explain with examples.

(CBSE 2023)

Ans. Positive role of Credit

Credit plays a positive role in economic development in the following ways:

- (i) Credits or loans sanctioned by banks help the industrialists as capital investments to start up a new venture without worrying about the lack

of cash. This creates employment opportunities thereby contributing in the economic development of the country.

- (ii) Loans help the farmers to buy new seeds before the sowing season which becomes the source of capital to them in need and have a better earning.
- (iii) Credit helps to boost many other sectors as well as to buy houses, vehicles and generate demands. This helps in the economic development. Even the borrower is capable of repaying the loans in instalments.

Negative Role of Credit

The negative role of credit are:

- (i) The cost of informal loans is much higher and leads to a debt-trap. The industrialists who want to start a new enterprise by borrowing may not do so due to the high cost of borrowing.
- (ii) Most of the loans from informal lender carry a very high interest rate and do little to increase the income of the borrowers.
- (iii) Credit is not beneficial to the borrower if money is not utilised profitably. Sometimes, money borrowed by farmers to buy raw material turns to be a failure as he is not able to repay the amount and falls into a debt-trap.

Q 3. How are deposits with the banks beneficial for an individual as well as for the nation?

(CBSE 2015)

Ans. Deposits with the banks are beneficial in the following manner:

- (i) Depositors receive interest on the deposits from the banks.
- (ii) The money remains safe in the bank.
- (iii) The money can be withdrawn anytime by the depositors from the bank.
- (iv) Cheques can be issued against these deposits.
- (v) These deposits help to increase the flow of credit in the country.

Q 4. How do banks mediate between those who have surplus money and those who need money?

Ans. Banks play an important role between those who have surplus money and those who need money in the following ways:

- (i) People deposit money with bank and earn interest on it.
- (ii) Banks keep only a small proportion of their deposits as cash with themselves. For example, banks in India these days hold about 15% of their deposits as cash known as cash balance. This is kept as a provision to pay the depositors who might come to withdraw money from the bank.

- (iii) Banks use the remaining portion of the deposits to extend loans. In this way, banks mediate between those who have surplus funds (the depositors) and those who are in the need of these funds (the borrower).
- (iv) Banks charge a higher interest rate on loans than what they offer on deposits.
- (v) The difference between what is charged from borrowers and what is paid to the depositors, is the main source of income of the banks.

Q 5. Why is cheap and affordable credit important for the country's development? Explain any three reasons. (CBSE 2018)

OR

'Cheap and affordable credit is crucial for the country's development'. Explain the statement with five points.

OR

'Cheap and affordable credit is crucial for the country's development'. Justify the statement.

(CBSE 2023)

Ans. Cheap and affordable credit is important for the country's development due to the following reasons:

- (i) Cheap and affordable credit would lead to the higher income.
- (ii) Many people could borrow for a variety of needs.
- (iii) It enables more investment that results in the acceleration of economic activities.
- (iv) It encourages people to invest in agriculture, do business and set up small scale industries, etc.
- (v) Affordable credit would also end the cycle of the debt-trap.

Q 6. 'Poor households are still dependent on informal sources of credit'. Why is it so?

OR

Why do most of the rural households still remain dependent on the informal sources of credit?

(CBSE 2021-22, Term-2)

Ans. Poor households are still dependent on informal sources of credit due to the following reasons:

- (i) Banks are not present everywhere in rural India and where they are present, getting a loan from a bank is very difficult than taking a loan from the informal sources.
- (ii) Banks do not sanction any loan to the borrowers if they have not cleared the previous loans.
- (iii) Bank loans require proper documents and collateral that poor people in rural India cannot produce to the bank.
- (iv) Informal lenders such as moneylenders know the borrowers personally and so are willing to give a loan without collateral.
- (v) Rural people get easy loans from the richer households through informal ways.

Q 7. Distinguish between formal and informal credit sources.

Ans. Difference between formal and informal credit sources are:

S.No.	Basis of Difference	Formal Credit Source	Informal Credit Source
(i)	Terms and conditions	<u>Terms of credit and interest are fixed.</u>	<u>Terms of credit and interest are not fixed.</u>
(ii)	Documentation	<u>Loans can be obtained only after proper documentation.</u>	<u>Loans can easily be obtained without any documentation.</u>
(iii)	Governing authority	These resources work under the supervision of the Reserve Bank of India (RBI).	These do not work under any government organisation.
(iv)	Rules and regulations	<u>They follow rules and regulations formed by the RBI.</u>	<u>They do not follow any rules and regulations.</u>
(v)	Sources	<u>Commercial banks, cooperative societies, etc., are the main sources of formal credit.</u>	<u>Relatives, moneylenders and landlords are the main sources of informal credit.</u>
(vi)	Rate of interest	<u>Rate of interest is low.</u>	<u>Rate of interest is high.</u>
(vii)	Collateral	<u>Collateral is necessary.</u>	<u>Collateral is not necessary.</u>

Q 8. 'The Reserve Bank of India supervises the functioning of formal sources of loans.' Support the statement with examples. (CBSE 2020)

Ans. The Reserve Bank of India supervises the functioning of formal sources of loans. This can be understood through the following examples:

- (i) All the commercial banks are required to maintain a minimum cash balance out of the deposits they receive. The RBI monitors that the banks actually maintain the required cash balance.
- (ii) Periodically, banks have to submit information to the RBI on how much they are lending, to whom and at what interest rate, etc.
- (iii) It is necessary to exert control over the banking system so that the depositors are not cheated out of their hard earned money. By exercising

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

(iv) RBI issues currency notes on behalf of the Central Government.

(v) RBI issues guidelines for fixing rate of interest on deposits and lending by banks.

Q 9. How can formal sector loans be made beneficial for poor farmers and workers? Suggest any five measures. (CBSE 2016)

Ans. The formal sector loans are given by banks and cooperatives. This sector charges low interest on credit extended but still the poor farmers and workers do not approach this sector because it requires proper documentation and provision of collateral for the purpose of extending credit. So, the measures to make formal sector loan beneficial for poor farmers and workers are:

- (i) The formal sector should ensure that everyone receives loans.
- (ii) It should ensure self-help group and bank linkage.
- (iii) More cooperatives and banks should be set up in rural areas.
- (iv) Statutory requirements for obtaining loans should be reduced.
- (v) The need for collateral should be scrapped.

Q 10. 'Credit sometimes pushes the borrower into a situation from which recovery is very painful'. Support the statement with examples. (CBSE 2020)

Ans. It is true that credit sometimes pushes the borrower into a situation from which recovery is very painful. Some of the cases which support this statement are:

- (i) In case of rural areas if crop fails due to natural factors, it will be difficult to repay.
- (ii) In case of informal sector, rate of interest is very high. If due to crop failure, previous loan is not repaid, interest rate further mounts.
- (iii) In case of a failure of a business, it will be difficult to repay the credit.
- (iv) In case of high risk activities, failure without some support can push the borrower in a painful situation.
- (v) In many of the cases, people have to sell their land and fixed assets to repay the loan.

Q 11. Self-help groups help borrowers to overcome the problem of the lack of collateral. Examine the statement. (CBSE 2017)

OR

'The self-help groups help borrowers to overcome the problem of lack of collateral security.' Support the statement with examples. (CBSE 2020)

OR

How do self-help groups help borrowers to overcome the problem of lack of collateral? Explain.

(CBSE 2022 Term-2)

OR

Justify the role of 'Self-Help Groups' in the rural economy. (CBSE 2023)

Ans. The self-help groups help the borrowers to overcome the problem of lack of collateral security in the following ways:

- (i) Self-help group is able to solve collateral problem as members can take small loans from it to meet their needs without any collateral.
- (ii) People can get timely loans for a variety of purposes and at a reasonable interest rate.
- (iii) The decisions regarding savings and loan activities are taken by the group members which decides about the loans to be granted, the purpose amount, interest to be charged, repayment schedule, etc. In this, the group is responsible for the repayment of the loan.
- (iv) SHGs are regular in their savings which can be used as monetary help.
- (v) Due to these features of SHGs, banks are willing to lend to poor women when organised even though they have no collateral as such.

Q 12. What is a collateral? Why is it a main reason to prevent the poor getting a loan from banks? Explain. (CBSE 2023)

Ans. Meaning of Collateral: It is an asset or form of physical wealth that the borrower like house, livestock, vehicle etc.

The reasons to prevent the poor getting a loan from banks are:

- (i) They are not literate enough to fulfil the qualification and conditions of bank for providing loans.
- (ii) They are not aware of the advantages that they will get from a formal credit.
- (iii) Usually, they take loans from informal sectors like their family, relatives, friends, moneylenders etc. as they know them personally.
- (iv) There are not enough banks established in rural areas so that the people there can also take the advantage of formal credit.

Q 13. Mr 'X' borrowed money from a moneylender at a high rate of interest, as he could not pay the interest. Mr 'X' was forced to borrow from another landlord to settle the amount for the interest borrowed, to the moneylender. State the consequences he may face in this situation. (CBSE SQP 2023-24)

Ans. Mr X's situation is potentially problematic for him because he has borrowed money at high rate of interest and is unable to pay it back. By borrowing from another landlord to settle the interest amount, he has effectively taken on additional debt to pay off his existing debt.

Some possible consequences that Mr X may face in this situation:

- (i) Mr X may find himself in a debt trap, where he is unable to pay off his loans and the interest keeps piling up. This could lead to a situation where he is forced to keep borrowing money to make payments, which only increases his overall debt.
- (ii) He will not be able to make regular interest payments or repay the full amount borrowed. This could lead to significant stress and anxiety, as well as potential physical injuries.
- (iii) If Mr X is unable to make payments on his loans, the moneylender and the second landlord may take legal actions against him. This could result in a lawsuit, wage garnishment, or even repossession of his assets.

Q 14. 'Self-help groups eliminate poverty and empower women'. Substantiate with suitable answer.

(CBSE SQP 2023-24)

Ans. Self-Help Group (SHGs) have been recognised as an effective tool for poverty alleviation and women's empowerment in many parts of the world.

Some reasons why SHGs can help eliminate poverty and empower women:

- (i) SHGs provide a supportive environment where members can share their experiences and challenges and offer each other advice and encouragement. This can help to build social capital and reduce isolation, which can be important factors in poverty reduction and women's empowerment.
- (ii) SHGs can also facilitate collective action and advocacy on behalf of their members, such as advocating for better access to healthcare or education. This can help to build political and social capital and promote greater gender equality.
- (iii) SHGs provide members with access to credit, which can be used to start or expand a business, pay for education or healthcare or meet other financial needs. This can help to reduce poverty by enabling individuals to generate income and improve their standard of living.



Chapter Test

Multiple Choice Questions

Q 1. Raghav has surplus money so he opens a bank account and deposits in it. Whenever he needs money, he can go to his bank and withdraw from there. This kind of deposit with the banks are known as:

- a. Demand deposit b. Term deposit
- c. Fixed deposit d. Surplus deposit

Q 2. Which among the following is not a feature of informal source of credit?

- a. It is supervised by the Reserve Bank of India
- b. Rate of interest is not fixed
- c. Terms of credit are very flexible
- d. Traders, employers, friends, relatives, etc. provide informal credit source

Q 3. Banks give out loans and charge on the loan amount from the borrower.

- a. rent b. wages
- c. interest d. money

Q 4. A shopkeeper Sudha has to make a payment to the wholeseller and writes a cheque for a specific amount to the wholeseller. The wholeseller takes this cheque and deposits it in his own account in the bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is completed without any payment of cash.

Analyse the information given above, considering one of the following correct option:

- a. Check payment b. Interest on deposits
- c. Demand deposit d. Money transfer

Q 5. Rita has taken a loan of ₹ 7 lakhs from the bank to purchase a car. The annual interest rate on the loan is 14.5 per cent and the loan is to be repaid in 3 years in monthly instalments. The bank retained the papers of the new car as collateral, which will be returned to Rita only when she repays the entire loan with interest.

Analyse the loan information given above, considering one of the following correct option:

- a. Mode of re-payment b. Terms of credit
- c. Interest on loan d. Deposit criteria

Assertion and Reason Type Questions

Directions (Q. Nos. 6-7): In the following questions given below, there are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the correct option:

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true, but Reason (R) is false.
- d. Assertion (A) is false, but Reason (R) is true.

Q 6. Assertion (A): Banks charge a higher interest rate on loans than what they offer on deposits.

Reason (R): The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

Q 7. Assertion (A): The Reserve Bank of India supervises the functioning of formal sources of loans.

Reason (R): The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers, etc.

Source Based Question

Q 8. Read the source given below and answer the questions that follow by choosing the most appropriate option:

Every loan agreement specifies an interest rate which the borrower must pay to the lender along with the repayment of the principal. In addition, lenders may demand collateral (security) against loans. Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposit with the banks) and uses this as a guarantee to a lender until the loan is repaid. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment. Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing.

(i) Which of the following statements correctly describes an agreement?

- a. Sort of contract to be agreed upon by both the lender and the borrower
- b. Only an interest rate is to be paid by the borrower to the lender
- c. Higher interest rate has to be paid by the borrower
- d. Only amount and rate of interest are written down on it

(ii) Identify the statement described by collateral:

- a. an asset possessed by a lender
- b. sort of guarantee in the form of an asset
- c. a guarantee to a lender for the asset
- d. selling of asset to the borrower

(iii) The most common example of collateral used for borrowing is:

- a. deposits with banks
- b. loan on land
- c. principal amount
- d. interest rate on property

(iv) What is the condition associated with collateral?

- a. If the borrower fails to repay the loan amount, the lender has the right to sell the collateral security to obtain payment

b. The lender holds the authority to sell the asset of the borrower

c. The borrower use the collateral until the re-payment is done

d. An interest rate has to be paid by the borrower to the lender along with repayment of principal

(v) Collateral used for borrowing can be:

- a. land titles
- b. deposits with banks
- c. livestock
- d. Any of these

(vi) Two statements are given in the question below as Assertion (A) and Reason (R). Read the statements and choose the appropriate option:

Assertion (A): Collateral is what pushes the lender in to a painful debt trap situation.

Reason (R): Collateral is an asset that the borrower owns and uses as a guarantee to a lender against the amount borrowed.

- a. Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).
- b. Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A).
- c. Assertion (A) is true, but Reason (R) is false.
- d. Assertion (A) is false, but Reason (R) is true.

Very Short Answer Type Questions

Q 9. Who issues the currency notes in India? Which is our currency used nowadays?

Q 10. Why are most of the poor households deprived from the formal sector of loans?

Short Answer Type Questions

Q 11. Why is it necessary for the banks and cooperative societies to increase their lending facilities in rural areas? Explain. (CBSE 2015)

Q 12. What is credit? How does credit play a vital and positive role? Explain with an example.

Q 13. 'Deposits with banks are beneficial to the depositors as well as to the nation.' Examine the statement.

Long Answer Type Questions

Q 14. 'The Reserve Bank of India supervises the functioning of formal sources of loans.' Support the statement with examples.

Q 15. Describe the pattern of formal and informal sources of credit in urban areas. Why do we need to expand the formal source of credit?