

Money and Credit



HOTS QUESTIONS (HQ)

1. Under barter system, both parties have to agree to sell and buy each other's commodities. What is it known as ?

Ans. Double coincidence of wants.

2. Since money acts as an intermediate in the exchange process therefore it is called as.

Ans. Medium of exchange.

3. Before the introduction of coins, a variety of objects was used as money. Give two examples of such objects.

Ans. Grains and cattle.

4. Modern currency is without any use of its own. What does modern currency include ?

Ans. Paper notes and coins.

5. Who issues currency notes on behalf of the Central Government ?

Ans. Reserve Bank of India.

6. No individual in India can legally refuse a payment made in rupees. Why it is so ?

Ans. The law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

7. Why deposits in the bank accounts are called demand deposits ?

Ans. Because they can be withdrawn on demand,

8. It is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name it has been issued. Name it.

Ans. Cheque.

9. Why demand deposits, along with currency, constitute money in the modern economy ?

Ans. Because demand deposits are accepted widely as a means of payment.

10. Banks keep only a small proportion of their deposits as cash with themselves. Why?

Ans. This is kept as a provision to pay the depositors who might come to withdraw money from the bank on any given day.

11. What is the main source of income for banks?

Ans. The main source of income for banks is the difference between interest rate charged from borrowers and what is paid to depositors.

12. It refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment. Mention it.

Ans. Credit (Loan)

13. In rural areas, the main demand for credit is for crop production. What does crop production involve ?

Ans. Crop production involves considerable costs on seeds, fertilisers, pesticides, water, electricity, repair of equipment, etc.

14. Suppose Swapna could not repay the loan due to the failure of the crop, due to which she had to sell part of the land and repay the loan. Here, credit, instead of helping her to improve earnings, left her worse off. What is this situation called ?

Ans. This situation is commonly called debt-trap.

15. Whether credit would be useful or not depends on some factors. Mention them.

Ans. It depends on the risk in the situation and whether there is some support in case of loss.

16. For making cheap and affordable credit available for people what should be done ?

Ans. For this, banks and cooperative societies need to lend more.

17. According to data of the year 2003, rich urban households took 90% of their loans from formal sources, whereas 10% from informal sources. Poor households in the urban areas took 85% of their loans from informal sources. What do these facts indicate?

Ans. The rich households are availing of cheap credit from formal lenders, whereas the poor households have to pay a heavy price for borrowing.

18. Even when the banks are present, it is difficult for poor households to get a loan from the bank than taking a loan from informal sources ? Why is it so ?

Ans. Bank loans require documents and collateral which is rarely available with poor households and it prevents them from getting bank loans.
On the other hand, informal lenders such as moneylenders know the borrowers personally and are often willing to give a loan without collateral.

19. How many members do SHGs normally have and what is the amount of saving per member ?

Ans. A typical SHG has 15-20 members usually belonging to one neighbourhood and saving per member varies from Rs. 25 to Rs. 100 or more, depending on the ability of the people to save.

20. After a year or two, if a SHG is regular in savings, it becomes eligible for availing loan from the bank. In whose name loan is sanctioned and for what purpose it is meant for ?

Ans. Loan is sanctioned in the name of the group and is meant to create self employment opportunities for the members.

21. Why banks are willing to lend to the poor women when organised in SHGs, even though they have no collateral as such?

Ans. Because any case of non-repayment of loan by any one member is followed up seriously by other members in the group. In other words, it is the group which is responsible for the repayment of the loan.

22. Besides helping the women to become financially self-reliant how do SHGs benefit them?

Ans. SHGs provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.