

Money and Credit

Question 1.

The currency notes on behalf of the Central Government are issued by whom? (2011 D)

Answer:

Reserve Bank of India.

Question 2.

Why do banks ask for collateral while giving credit to a borrower? (2014 D, 2011 OD)

Answer:

Collateral is an asset that the borrower owns (land, building, vehicle, livestock, land documents, deposits with banks, etc.) which stands as a security against the money borrowed. In case the borrower fails to repay the loan, the lender has the right to sell the asset or collateral.

Question 3.

What do banks do with the deposits they accept from customers? (2012 D)

Answer:

Banks use a major portion of deposits to extend loans to people.

Question 4.

What comprises 'terms of credit'? (2012 OD)

Answer:

Interest rate, collateral and documentation requirement and mode of repayment together comprise terms of credit.

Question 5.

What is the main informal source of credit for rural households in India? (2013 D)

Answer:

Money lenders are the main source of informal credit for rural households.

Question 6.

Which body supervises the functioning of formal sources of loans? (2013 OD)

Answer:

Reserve Bank of India.

Question 7.

'Modern currency is without any use of its own'; then why is it accepted as a medium of exchange? (2014 OD)

Answer:

Modern currency is accepted as a medium of exchange because it is certified for a particular denomination (₹10, ₹100, etc.) of the country by authorities set up by the Central Government. It is issued by the Reserve Bank of India and it can be used for buying any commodity which is on sale. It is authorized by the government of the country.

Question 8.

What is the meaning of 'barter system'? (2015 D)

Answer:

Barter system refers to the system of exchange of goods and services. It is the system by which one commodity is exchanged for another without the use of money. Before money was introduced, people practised barter system.

Example: A farmer could buy a dhoti from a weaver or a pair of shoes from a cobbler in exchange of grains he produced.

Question 9.

What is the meaning of 'investment'? (2015 D)

Answer:

Investment is buying of an asset in the form of a factory, a machine, land and building, etc. (physical assets) or shares (monetary assets) for the purpose of making or sharing profits of the enterprises concerned.

Common investments are—buying land, factories, machines for faster production, buying small local companies to expand production, cheap labour, skilled engineers, IT personnel, etc.

Question 10.

What is meant by double coincidence of wants? (2015 OD)

Answer:

Double coincidence of wants means when both parties have agreed to sell and buy each other's commodities.

Question 11.

How does money act as a medium of exchange? (2015 OD)

Answer:

Money acts as a medium of exchange as it acts as an intermediate in the exchange process and transactions. A person holding money can easily exchange it for any commodity or services that he or she might want.

Question 12.

How do the deposits with banks become their source of income? (2016 D)

Answer:

Banks charge a higher interest rate on loans they extend than what they offer on deposits. The difference of interest is the main source of income of banks.

Question 13.

Why one cannot refuse a payment made in rupees in India? (2016 D)

Answer:

One cannot refuse a payment made in rupees in India because it is accepted as a medium of exchange. The currency is authorized by the government of the country.

Question 14.

Compare formal sector loans with informal sector of loans regarding interest only. (2016 D)

Answer:

Most of the informal lenders charge a much higher interest on loans than the formal sector loAnswer:

Question 15.

Why is the supervision of the functioning of formal sources of loans necessary? (2016 OD)

Answer:

Supervision of the functioning of formal sources of loans is necessary because banks have to submit information to the RBI on how much they are lending, to whom they are lending and at what interest rate etc.

Question 16.

Prove with an argument that there is a great need to expand formal sources of credit in rural India. (2016 OD)

Answer:

There is great need to expand formal sources of credit in rural India because:

- 1 There is no organisation that supervises the credit activities of lenders in the informal sector. They lend at whatever

interest rate they choose.

2 No one can stop rural money-lenders from using unfair means to get their money back.

Question 33.

What is the basic objective of 'Self Help Groups'? How do they work? Describe any four advantages of 'Self Help Groups' for the poor. (2015 D, 2011 D)

Answer:

The basic objective of 'Self Help Groups' is to organize rural poor, particularly women belonging to one neighbourhood into small Self Help Groups (15-20 members). These members save regularly and the amount varies from ₹25-100 or more depending upon their ability to save.

The four advantages of 'Self Help Groups' are as follows:

1 The members can take small loans from the group itself to meet their needs. The group charges interest on these loans which is still less than what moneylenders charge.

2 After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank which is sanctioned in the name of the group to create self employment opportunities. All important decisions regarding loan, purpose, amount of interest, non-payment of loan are taken by the group members.

For instance, small loans are provided to the members for releasing mortgaged land, meeting working capital needs, for acquiring assets like sewing machines, handlooms, cattle etc.

3 Since non-repayment of loans is dealt with seriously by group members, therefore banks are willing to lend to the poor women when organized in SHGs, even though they have no collateral as such. Thus, the SHGs help women to become financially self reliant.

4 The regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence etc.

Question 34.

'Banks and cooperatives help people in obtaining cheap and affordable loans' Which values according to you does this support? (2011 OD)

Answer:

Cheap and affordable loans help people to grow crops, do business, set up small scale industries or trade in goods.

This promotes:

- 1 Self reliance and financial security and independence of people.
- 2 Protection of the relatively poor against corrupt moneylenders.
- 3 Eradication of poverty in general.
- 4 All this indirectly helps in the country's development.

Question 35.

What is Credit? Why is cheap and affordable credit important for the country's development? Give four reasons. (2012 D)

Or

What is credit? Explain with an example, how credit plays a vital and positive role for development. (2014 OD)

Answer:

Credit means loans. It refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future repayment.

1 Cheap and affordable credit is crucial for the country's growth and economic development. Credit is in great demand for various kinds of economic activities—big or small investments, to set up business, buying cars, houses, etc.

2 In rural areas credit helps in the development of agriculture by providing funds to farmers to buy seeds, fertilizers, expensive pesticides.

3 Manufacturers need credit for buying raw material or to meet ongoing expenditure of production. Credit helps in the purchase of plant, machinery, equipment, etc.

4 Some people may need to borrow for illness, marriages etc.

Thus, cheap and affordable credit is crucial for the country's growth and economic development.