

## Homework

### Exercises

In an situation with high risks, credits might create further problems for the borrower. Explain

ans - Yes, it is true, in situations of high risk, taking credit may increase the problem. Borrower may not be able to payback the credit taken and lose whatever he has, to repay the loan. For example, a small farmer has taken a loan to

meet cultivation expenses. In case the crop fails, he will not be able to repay the loan and may have to sell part of his land for repaying the loan.

Q4 How does money solve the problem of double coincidence of wants? explain with an example of your own.

ans- In double coincidence of wants, goods are directly exchanged without the use of money, but by talking each other's goods. Using money as a medium of exchange, eliminates the double coincidence of wants by providing the crucial intermediate step of exchange i.e. money. For example, it is not necessary for a shoemaker to look for a rice farmer who will buy shoes made by him and at the same time, sell rice to him. All he has to do is to find a buyer for his shoes, who will pay him money for them. All he has to do is to find a buyer for his shoes, who will pay him money for them.

Q5 How do banks mediate between those who have surplus money and those who need money?

ans- People having surplus money deposit it in their banks. In this way, banks have large amount of deposit money. Banks then hold 15% of the deposit and rest 85% is given as loans to those people who need to borrow. Here depositors and borrowers do not know each other but banks extend the deposits as loans. In this way, banks act as a mediator between those who have surplus money and those who need it.

Q. Look at a ₹10 note. What is written on top? Can you explain this statement?

ans- The following words are written on the top of a ₹10 note

Reserve Bank of India  
Guaranteed by the Central Government  
I promise to pay the bearer the sum of  
Ten Rupees. Governor

These words state that ₹10 note is acceptable as a medium of exchange because this is authorised by government of the country. In India, the Reserve Bank of India issues currency notes on behalf of the Central Government. As per Indian law,

no other individual or organisation is allowed to  
issue currency.