

Homework

Let's work these out

1) What are the differences between formal and informal sources of credit?

ans - Formal sources of credit

* Richer people have assets which can be pledged as collateral.

* Rate of interest is reasonably low

* Sources are - Banks and cooperative societies.

Informal sources of Credit

* Poorer people do not have assets which can be pledged.

* Rate of interest is very high.

* Sources are - Traders, moneylenders, landowners, etc.

2) Why should credit at reasonable rates be available for all?

ans - Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheaper loan rates.

Q4 Should there be a supervisor, such as the Reserve Bank of India, that looks into the loan activities of informal lenders? Why would its task be quite difficult?

ans - There should be a supervisor for checking the loan activities of informal lenders.

However, its task is quite difficult because informal sector constitutes large number of people who may have other businesses of their own, besides lending. It is not possible to register them.

Q4 Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households?

ans - The share of the formal sector credit is higher for the richer households because the richer households are in a better position to provide collateral and

other necessary documents which are required by the banks and cooperatives.

Richer households have means to exert pressure on banks and cooperatives to sanction loans. These households have greater capacity to repay the loans as compared to the poor households.