

Homework

Exercise

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

ans - * High cost of borrowing leads to a major share of earnings going into payment of interest on the loan so formal source of credit is needed.

* Sometimes the higher interest rate leads to a major share of earnings going into payment of interest on the loan so formal source of credit is needed.

* Borrowers falling into debt-traps discourage more people from borrowing, which ultimately reduces development of the country.

* Formal sources of lending to more borrowers will lead to higher incomes and many people could then borrow cheaper for a variety of needs like growing crops, set-up business or small-scale industries.

6. What is the basic idea behind the SHGs for the poor? Explain in your own words.

ans- The basic idea behind the formation of SHGs is poor, explain in your own words. to create self-employment for the poor, particularly rural poor women. The SHGs help poor borrowers to overcome the problem of lack of collateral. They can get timely loans for a variety of purposes at a reasonable interest rate in the name of the SHG of which they are members. The SHGs are thus the building blocks of organisation of the rural poor.

Q) In what ways does the Reserve Bank of India supervise the functioning of banks? why is this necessary?

ans- The Reserve Bank of India supervises the functioning of banks as follows:-

- * The RBI checks that the banks actually maintain a minimum cash balance out of the deposits they receive.
- * The banks have to periodically submit information to the RBI on how much they are lending, to whom, at what interest rate, etc. Thus, the RBI ensures that the banks give loans not just to big businesses and traders,

but also to small cultivators and borrowers.

This supervision is necessary to ensure that small businesses also to ~~small cultivators~~ grow. Further, this monitoring ensures that banks do not loan more money than they are supposed to, as such an action can create a crisis situation.

Q7 Analyse the role of credit for developments

ans- Development is sustained by a proper credit policy. By giving loans in agriculture, industry and trade, banks provide the necessary funds needed for carrying on the business. This results in increased production and services, more employment and profits.

For cultivators, credit is needed for the betterment of agricultural practices. If farmers and poor people get credit at cheaper rates then they will be able to generate self employment for themselves and lead their life in a better way.