

## ASSIGNMENT

Q- In situations with high risks, credit might create further problems for borrowers. Explain.

Ans) In situations with high risks, credit might create further problems for the borrower from a lender at a high interest rate. In case there's a failure and the borrower faces loss, then they further fall in trap of credit. This is known as a debt trap. The borrower has to repay the credit along with interest applied by the lender and he further falls into the ~~trap~~ trap of credit, increasing the problems for the borrower. The borrower also has to sell a part of his or her land to repay the loan.

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2-> How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Ans-> 'Double coincidence of wants' is when whatever a person desires to sell is exactly what the other wishes to buy. In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. Money solved the problem of double coincidence of wants because after the introduction of money people could use money as an intermediate to buy or sell things and no ~~specific~~ specific buyer or seller was required for interchanging products. For example, a trader wishes to sell 10 sacks of full rice and expects to get it in exchange of five sacks of cereal. To find a suitable buyer to sell the sacks of rice in exchange for cereals would be very tough. However, the money will solve this problem and the trader can sell the sacks of rice to someone who needs it and in return, buy cereals from

from the money he gets from the ~~big~~ buyer of the rice.

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

Ans) Banks mediate between those who have surplus funds (the depositors) and those who are in need of funds (the borrowers) by lending money to people who are in need. People can open accounts in banks and banks make use of that money to fulfil the loan requirements of the people. A higher interest rate is charged for the borrower and that profit is given to the depositor as interest for offering deposits.

4) Look at ₹10 note. What is written on top? Can you explain?

Ans) "Reserve bank of India" and "Guaranteed by the Central Government." is written on the top of a ₹10 note. Currency ~~note~~ is

issued by the central bank of the country. In the case of India, the Reserve Bank of India is the central bank of India. This currency issued on behalf of the central Govt. and these two are the only authorities which are responsible for issuing notes and currency in India.

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

Ans) Formal sources of credit are the Government ~~organised~~ authorised organisations that are eligible to lend money to people. It is important to expand formal sources of credit in India because the informal sources are not registered and lend money to people at very high interest rates which is unfair and must not be practised. If formal sources of credit are increased, people will be able to borrow money at lesser interest rates and will not be liable to do any extra work for the borrower. Especially in India, if formal sources of credit are increased, people will be able to take loans.