

Home Assignment

Q5) Why do we need to expand formal sources of credit in India? Explain any four reasons.

Ans. We need to expand formal sources of credit in India because:-

→ To reduce the dependence of farmers on informal sources of credit like moneylenders, traders who charged high rate of interest.

→ The cost of informal loans is much higher and often leads to debt trap. Also, people who might wish to start a new business by borrowing may not do so because of the high cost of borrowing in such a case.

→ Cheap and affordable credit is extremely important for the development of the country because by this many people will be able to set up

Small Scale Enterprises in their village area.

→ Reserve Bank of India (RBI) also supervises the formal sector credit through various rules and regulations which ensures that banks give loans to small cultivators, small borrowers etc. and not just to profit making business and traders.

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

Ans. Self help groups consist of certain members who pool their savings and make a fund which is further used in making finance and advances to other members. The SHGs help borrowers overcome the problem of lack of collateral. They can fetch loans at a reasonable interest rate. They

help woman to become self-reliant.

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

Ans (i) The Reserve Bank of India supervises the functioning of formal sources of loans.

(ii) The RBI monitors the banks in maintaining cash balance.

(iii) The RBI sees that the banks give loans not just to profit making business and traders but also to small cultivators, small businesses etc.

(iv) Periodically banks have to submit information to the RBI on how much they are lending, to whom, at what rate of interest, etc.

Q) Analyse the role of credit for development.

Ans (i) Credit is one of the major

aspects of the development of a country.

(ii)

People need loans for different reasons and to meet this requirement credit is crucial.

(iii)

In India, a major part of the population is engaged in agricultural activities. People can borrow money and use modern farming methods to grow crops which are more reliable than the traditional methods of growing crops.

(iv)

Apart from this, people also take loans to run any small scale industries where credit can help people and ultimately result in the development of the ~~country~~ country.