

EXERCISES

Ch-3

Money & Credit

1. In situations with high risks, credit might create further problems for the borrower. Explain.

Yes, it is true. In situations of high risk, taking credit may increase the problem. Credit involves a certain amount of loan that is taken by a borrower from a lender at high interest rate. In case, there is a failure and the borrower faces loss, then he further falls in the debt trap. The borrower has to repay the credit along with the interest applied by the lender and he further falls into the trap of credit, increasing the problems for the borrower. The borrower also has to sell a part of his/her land to repay the loan.

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

In double coincidence of wants, goods

are directly exchanged without the use of money, but by taking 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. Money solved the problem because after the introduction of money, ~~both~~ ~~exand~~ people could use money as an ~~medium~~ intermediate to buy or sell things and no specific buyer or seller was required ~~for~~ ~~of~~ for exchange of products. Ex. - 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. With this money, he can purchase rice or any other commodity available in the market.

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

Ans. People having surplus money deposit it ~~the~~ 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 mediators between those who have surplus money and those who need it.

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

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

Reserve Bank of India
Guaranteed by the Central Govt.

These words state that ₹ 10 note is a medium of exchange because this is authorized by govt. of the country. In

In India, the Reserve Bank of India issues currency notes on behalf of the central govt. As per Indian law, no other individual or organisation is allowed to issue currency.