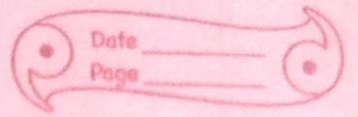


## Homework



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

Ans - \* Money borrowed on higher rates of interest will usually increase the debt burden or debt trap.  
\* Debt trap is a situation where the debtor will not be able to repay the debt incurred. Informal sources of credit charge higher rates of interest.

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

Ans - \* Money solves the problem of double coincidence of wants implies a situation where two parties agree to sell and buy each other's commodities. i.e. What one party desires to sell is exactly what the other party wishes to buy.

\* Ex.:- If an ice cream vendor wants a bicycle but a bicycle manufacturer wants cloth and not ice-cream, so, here he will use money to obtain bicycle.

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

Ans - A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it.

\* Those with surplus money are encouraged to invest with the bank and are paid a certain rate of interest for the same. Those who need loans are required to pay an interest on the loans.

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

Ans - Reserve Bank of India (RBI) promises the bearer to pay the sum of ten rupees.

\* Signature of RBI Governor and Guarantee by the Central Government make this note a legal tender.

