

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

Answer.

1. High-risk situations occur in rural areas such as because the main demand for credit is for crop production which involves considerable costs on seeds, fertilizers, pesticides, water & electricity, repair of equipment.
2. There is a minimum stretch of three or four months between the time when farmers buy their inputs and when they sell the ~~crops~~ crops.
3. Farmers generally take crop loans at the beginning of the season and repay the loan after harvest.
4. Repayment of the loan is ~~entirely~~ crucially dependent on the income from farming.
5. If a crop fails due to shortage of rain

on for any other reason, a small farmer has to sell a part of the land to pay the loan

6. Failure of crops create further problem for the borrower of credit does not improve his economy but leaves him worse off than before

Q

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

Ans. In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. By serving as a medium of exchange, money removes the need for double coincidence of wants and the difficulties associated with the barter system. For example, if a

longer necessary for the farmer to look for a book publisher who will buy his cereals at the same time. All he has to do is find a buyer for his cereals. If he has exchanged his cereals for money, he can purchase any goods or services which he needs. This is because money acts as a medium of exchange.

Q3 How do banks mediate between those who have surplus money and those who need money?

Ans

1. People hold money as deposits with banks which pay an interest rate on them.
2. People do not withdraw their cash daily.
3. The banks, therefore, hold only 5 percent of their deposits as cash with themselves in order to pay the

depositors: come to withdraw cash. The banks are able to manage with this cash.

5. They use a major portion of the deposits to extend loans to those who need money.

6. The banks make use of deposits to meet the loan requirements of the people.

7. Thus in this way the banks mediate between those who have surplus money and those who need money. Banks charge a higher interest rate on loans than what they offer on deposits. The difference between the two is the main source of income of the banks.

Q Look at a 10 rupee note. What is written on top? Can you explain this statement? 'Reserve Bank of India' and 'Issued here' by the government can written on top.

Ans In India, the Reserve Bank of India issues currency notes on behalf of the central government. This statement means that the currency is authorised or guaranteed by the central government. Thus, India has legal tender. We accept as a medium of payment that can not be refused in any setting from anywhere in India.