

- (1) In situations with high risk, credit might create further problems for the borrowers. This is also known as debt trap.
- Taking credit involves an interest rate on the loan and if this not paid back the borrower is forced to give up his collateral or asset used as the guarantee to the lender. Thus, in situations with high risk, if the risk affect a borrower badly then he ends up losing more than he would have without the loan.

- (2) Money solves the problem of double coincidence of wants by acting as a medium of exchange.
- Double coincidence of wants implies a situation where two parties agree to sell and buy each other's commodities. What one party desires to sell is exactly what other party wishes to buy. Money does away with this tedious and complex situation by acting as a medium of exchange that can be used for one or all commodities.
- For example - if an ice cream vendor wants a bicycle, but the bicycle manufacturer wants cloth and not ice cream. Then the vendor gets money in return for ice cream. He does not

90° 1 Scale (15 cm) 1 Protractor 180°
Inclusive of all Taxes Pkd 02/2018

to adhere to the bicycle man's needs because many acts as the common medium of exchange.

3) A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it. Banks only keep about 15% of cash reserves to provide to people who come to withdraw money on daily basis. Those with surplus money are encouraged to invest with their banks and are paid a certain rate of interest for the same. Those who need loans are required to pay an interest on their loan.

The difference between payments to lenders and receipts from borrowers, comprises the bank's earnings. Thus the banks act as an 'beneficiary' for those with surplus money as well as those who need money.

4) A ten rupee note has Reserve Bank of India written at the top along with a statement guaranteed by the central government. Following it it is a promissory note and can only be issued by RBI which supervises money-related functions in the formal sector in India.