

let's work these out

- 1) what are the difference between formal & informal sources of credit?

Formal sources	Informal sources
<ul style="list-style-type: none"> Richer people having assets which can be pledged as collateral. 	<ul style="list-style-type: none"> Poorer people not having assets which can be pledged
<ul style="list-style-type: none"> Rate of Interest is low 	<ul style="list-style-type: none"> Rate of Interest is very high
<ul style="list-style-type: none"> Ex: - Banks & cooperative societies 	<ul style="list-style-type: none"> Ex - Traders, money lenders, land owners, etc.
<ul style="list-style-type: none"> Collateral can be confiscated and sold to recover the loan 	<ul style="list-style-type: none"> Borrower can be made as bonded labourer or made to part with land owned by them.

2) Why should credit at reasonable rates be available for all?

Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheaper loans.

3) Should there be a supervisor such as the Reserve Bank of India,

that looks into the loan activities of informal leaders? Why would its task be quite difficult? There should be a supervisor for checking the loan activities of informal leaders. However, its task is quite difficult because informal sector constitutes many people who have different kind of businesses of their own, besides lending. They are not registered with the government.

- 4) Why do you think that the share of formal sector credit is higher for the richer household compared to the poorer household? The share of the formal sector credit is higher for the richer households because the richer households are in a better position to provide collateral and other necessary documents

which are required by the banks and co-operatives. Richer households have means to exert pressure on the banks and co-operatives to sanction loans. Richer households have greater capacity to repay the loans compared to the poor households.