Page No.
Date 9/8/21

Money and Credit

1. This is also known as a debt-trap. Taking credit involves an interest rate on the loan and if this is not paid back, the borrower is forced to give up his collateral or asset used as the guarantee, to the lender. If a farmer takes a loan for crop production and the crop fails, loan payment becomes impossible. To repay the loan, the farmer may sell a part of his land making the situation worse than before.

2. 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 exchanges, money removes the need for double coincidence of wants and the difficulties associated with the barter system. For eg, it is no longer necessary for the farmers to look for a book publisher who will buy his cereals at the same time sell him books. All he has to do is find a buyer for his cereals. If he has exchanged his ~~money~~ cereals for

~~[illegible]~~ money, he can purchase any goods or services which he needs.

3. Banks keep small portion of deposits as cash (15%) for themselves (to pay the depositors on demand). They use the major portion of the deposits to extend loans to those who need money. In this way banks mediate between those who have surplus money and those who need money.

4. "Reserve Bank of India" and "Guaranteed by the Government" are written on top.
In India, RBI issues currency notes on behalf of the central govn. The statement means that the currency is authorized or guaranteed by the Central Govn i.e Indian law legalizes the use of rupee as a medium of payment that cannot be refused in settling transaction in India.