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Money and Credit

* Let's work these out :-

1.

Formal Sources of Credit	Informal Sources of Credit
i) Low rate of interest.	ii) High rate of interest.
ii) There is a need of collateral.	ii) May or may not ask for collateral.
iii) It is controlled and supervised by RBI.	iii) No organisation for supervising the work of lenders.
iv) More paper work.	iv) Less paperwork.
v) Eg:- Cooperatives, Banks, etc.	v) Eg:- Moneylenders, etc.

2. i) Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.

ii) The high rate of interest leads to increasing debt and debt trap.

iii) For these reasons, banks and cooperative societies need to lend more and cheap credit.

iv) They could grow crops, do business, set-up small scale industries, etc or trade in goods.

v) This would help in increasing the GDP and national income of our country for development.

3. There is no organisation which supervises the credit activities of lenders in the informal sector. They can lend at whatever interest rate they choose. There is no one to stop them from using unfair means to get their money back. Thus, there should be a supervisor, such as the RBI, that looks into the loan activities of informal lenders.

Its task would be quite difficult because informal sector constitutes many people who have different kinds of business of their own, besides lending. They are not registered by the govn.

4. The share of formal sector credit is higher for the richer households compared to the poorer households because the richer households are in better position to provide collateral and other necessary documents which are required by the banks and co-operatives. They have means to exert pressure on them to sanction loans. They have greater capacity to repay the loans as compared to the poor households. The rich households avail cheap credit from formal lenders whereas the poor households have to pay a large amount for borrowing.