

Q1) In situations with high risks, credit might create problems for the borrower explain.

Ans money borrowed on higher rates of interest with usually increase the debt burden on debt. trap.

Debt trap is a situation where the debtor will not be able to repay the debt incurred informal sources of credit charge higher rates of interest.

For Examp - Small farmers taking loan from money lenders at higher rates of interest for farming purpose and not able to pay back will result in selling a portion of farmers land and paying back to the money lender.

Q2) How does money solve the problem of double coincidence of wants? Give an example of your own?

Ans 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.

It's what one party decides to sell it's exactly what the other party wishes to buy. Money does away with these tedious and complex situations by acting as a medium of exchange that can be used for one and all commodities.

Example - If an ice-cream vendor wants a bicycle but the bicycle manufacturer wants clothes but the cycle manufacturer ^{and not ice cream} the vendor can use money to a bicycle. He does not need to adhere to the bicycle manufacturer's needs because money acts as the common medium of exchange. Similarly, the bicycle manufacturer can use the money to buy clothes.

3) - How do banks mediate between those who have surplus money and those who need money?

Ans A bank mediate between those who have

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

Thus the bank act as a beneficiary for those with surplus money as well as those who need money.

Q4) Look at a 10 Rupee note. What is written on top? Can you explain the statement?

Ans on the top of a 10 Rupees note "Reserve Bank of India, Guaranteed by the central Government is written".

It implies that the notes are issued by Reserve Bank of India on behalf of the central Government. They

means that the currency is authorized or guaranteed by the central government and no one can refuse payment made in it.