

# Money and Credit :-

classmate

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## Exercise:-

1. In situations with high risks credit might create further problems for the borrower.

  - In situations with high risks, credit might create further problems for the borrower. Credit involves a certain amount of loan that is taken by a borrower from a lender at a high interest rate. In case there is a failure, and the borrower faces loss, then he further falls in the trap of credit. This is known as a debt trap. The borrower has to repay the credit along with interest applied by the lender, and he further falls into the trap of credit, increasing the problems for the borrower. The borrower also has to sell a part of his or her land to repay the loan.
2. How does money solve the problem of double coincidence of wants?



Explain with an example of your own.

- 'Double coincidence of wants' is when whatever a person desires to sell is exactly what the other wishes to buy. In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. Money solved the problem of double coincidence of wants because after the introduction of money, people could use money as an intermediate to buy or sell things and no specific buyer or seller was required for interchanging of products. For example, a trader wishes to sell 10 sacks full of rice and expects to get it in exchange for five sacks of cereal. To find a suitable buyer to sell



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

- Banks mediate between those who have surplus funds (the depositors) and those who are in need of funds (the borrowers) by lending money to people who are in need. People can open accounts in banks and banks make use of that money to fulfil the people. A higher interest rate is charged for the borrower and that profit is given to the depositors as interest for offering deposits.

4. Look at a 10 rupee note. What is written on top? Can you explain this statement?

- "Reserve Bank of India" and "Guaranteed by the Central Government" is written on the top of a 10 rupee note. Currency in India is issued by the central bank of the country,



This currency is issued on behalf of the central government, and these two are the only authorities which are responsible for issuing notes and currency in India.

5. Why do we need to expand formal sources of credit in India?

Formal sources of credit are the Government authorised organisations that are eligible to lend money to people. It is important to expand formal sources of credit in India because the informal sources are not registered and lend money to people at very high-interest rates which is unfair and must not be practiced. If formal sources of credit are increased, people will be able to borrow money at lesser interest rates and will not be liable to do any extra work for the borrower. Especially in India, if formal sources of credit are increased, people