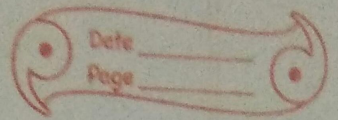


MONEY AND CREDIT



Q15 In situations with high risks, credit might create further problems for borrower. Explain.

Ans "In situations with high risks, credit might create further problems for the borrower". This is also known as a debt-trap. Taking credit involves an interest rate on the loan and if this is not paid back, then 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 crop production fails, loan payment becomes impossible. To repay the loan the farmer may sell a part of his land making the situation worse than before. Thus, in situations with high risks, if the risks affect a borrower badly, then he ends up losing more than he would have without loan.

Q16 How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Ans

In a barter system where goods are directly exchanged without the use of money, the double coincidence of wants is an essential feature.

By serving as a medium of exchange, money removes the need for double coincidence of wants and the difficulties associated with barter system. For example, it is no longer necessary for the farmer to look for a book publisher who will buy his cereal at the same time buy his books. All he has to do is find a buyer for his cereal. If he has exchanged his cereals for money, he can purchase any goods or service which he needs.

Q3:

How do banks mediate between those who have money & those who need money?

Ans

Banks mediate between those who have surplus funds and those who are in need of funds by lending money to people who are in need. People can open accounts in banks & banks can use that money to fulfill loan requirements. High interest rate is charged for the borrower & that profit is given to depositor as interest for offering deposits.

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

Ans "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, in the case of India, the Reserve Bank of India is the central bank of the country. This is issued on behalf of the central government, and these two are the only authorities which are responsible for issuing notes & currency in India.