

MONEY AND CREDIT

Q1: What are the differences between formal and informal sources of credit?

Ans	FORMAL SOURCES	INFORMAL SOURCES
1)	These sources of credit are regulated by the govt & have to follow its rules & regulations.	These include those small and scattered units which are largely outside the control of the government.
2)	RBI supervises the functioning of formal sources of credit.	There is no organisation which supervises credit activities.

Q2: Why should credit at reasonable rates be available for all?

Ans: If credit is available at reasonable rate, this would lead to higher income and many people could then borrow for a variety of needs such as for growing crops, for setting small scale industries etc.

3) There must be a supervision for checking the loan activities of informal lenders such as the Reserve Bank of India, Supervisors or other banks. The task would be quite difficult because informal sector includes several people who have their varieties of business besides lending and most imp pts to be noted by these sectors -

4) The share of the formal sector credit is higher for the richer household because the richer households are in a better position to provide collateral and other necessary documents ~~to provide~~ which are required by the banks and co-operatives. Richer households exert pressure on banks & co-operatives to sanction loans -