

Homework

1. In situations with high risks, credit co-operators create further problems for the borrowers. Explain?

1. High risk situations occur in rural areas because the main demand for credit is for crop production which involves considerable costs on seeds, fertilisers, pesticides, water, electricity, repairs of equipment.

- There is a minimum stretch of 3-4 months between the time when farmers buy these inputs and when they sell the crop.

- Farmers generally take crop loans at the beginning of the season and repay the loan after harvest.

- Repayment of the loan is crucially dependent on the income from farming.

- If a crop fails due to storage of...

as for any other season, a small farmer has to sell a part of the land to repay the loan.

6. Failures ~~and~~ of crops create further problems for the borrower. Credit does not improve his earnings but leaves him worse off than before. Credit in high risk situations pushes the borrower into a debt trap, a situation from which recovery is very painful.

2. How does money solve the problems of double coincidence wants? Explain with example of your own.

• In a barter system where goods are directly exchanged without the use of money 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 the barter system.

Ex. it is no longer necessary for the farmer to look for a book publisher who will buy his cereals at the same time sell him books. All he has to do is find a buyers for his cereals. If he has exchanged his cereals for money, he can purchase any good or services which he needs. This is because money acts as a medium of exchange.

Q3. How do banks mediate between those who have surplus money and those who need money?

- People hold money as deposits with banks which pay an interest on them.
- People do not withdraw their cash daily.
- The banks, therefore hold only 15% of their deposits as cash with themselves in order to pay the depositors who might come to withdraw money from the bank on any given day.

- Since on any particular day, only some of its many depositors ~~so~~ come to withdraw cash, the bank is able to manage to with this cash.

Q4. Look at a ₹10 note. What is written on top? Can you explain this statement? RBI and Guaranteed by the govt on top?

- In India, The Reserve Bank of India issues currency note on behalf of the central government. The statement means that the currency is authorized or guaranteed by the central government.

- That is, Indian law legalizes the use of the rupee as a medium of payment that cannot be refused in a settling transaction in India.