

Exercise.

Date _____

Page 44.

Q1. In situations with high risks, credit might create further problems for the borrower Explain.

Ans- Money borrowed on higher rates of interest will usually increase the debt burden. Debt burden/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.

ex: Small farmer taking loan from moneylenders at high rates of interest for farming purposes & not able to pay back will result in selling a portion of farmer's land & paying back to moneylenders.

Q2. How does money solve the problem of double coincidence of wants? Explain with an example of your own.

A → Money solves the problem of double coincidence of wants by acting as a medium of exchange. Double coincidence of wants implies a situation where 2 parties agree to sell & buy each other's commodities. i.e., what one party desires to sell is exactly what the other party wishes to buy. Money does away with this tedious & complex situation by acting as a medium of exchange that can be used for one & all commodities. For ex, if an ice-cream vendor wants a bicycle but the bicycle manufacturer wants clothes, & not ice creams, then the vendor can use money to obtain a bicycle. He does not need to adhere to the

bicycle man needs because money acts as the common medium of exchange. Similarly, the bicycle manufacturer can then use the money to buy clothes.

Date _____

Page 45.

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

A → A bank mediates between those who have surplus money & those who need money by allowing both to open accounts with it. Banks only keep about 15% of cash reserves to provide to people who come to withdraw money on a daily basis. Those with surplus money & those are encouraged to invest with banks, ^{are} paid a certain rate of interest for same. The difference between payment to lenders & receipt from borrowers comprises the bank's earnings. Thus, the bank acts as a beneficiary for those with surplus money as well as

Q4. Look at ₹10 note. What is written on top? Can you explain this statement? who need money

A → A ten rupee note has Reserve Bank of India written at the top along with a statement guaranteed by the central govt. following it. It is a promissory note & can only be issued by the RBI which supervises all money-related functions in the formal sector in India.