

Lets work These out →

Q1. what are the differences between formal & informal sources of credit?

Ans → FORMAL →

(a) Loans that are given by banks & cooperative institutions are called formal sector of credit.

(b) The functioning of these banks & cooperative institutions are supervised by Reserve Bank of India.

(c) These institutions are required to report to the RBI the rate of interest, amt. lending, etc.

INFORMAL :-

(a) Loans that are given by moneylenders, friends & relatives are called informal source of credit.

(b) They are not supervised by RBI.

(c) They can lend money at any interest rate & use any means to get back their money.

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

Ans →

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

Q2. Thus, credit at reasonable rate will be helpful in the development process of a country.

Q3. Should there be a supervisor, such as the Reserve Bank of India, that looks into the loan activities of informal lenders? Why should it task be quite difficult?

Ans. → There must be a supervisor for checking the loan activities of informal lenders such as the RBI supervises other banks. The task would be quite difficult because informal sector includes several people who have variety of business besides lending and the most imp. part to be noticed about these sectors are that they aren't registered with the govt. and without registration there is a risk of fraud of any kind of mis happening with borrowers as well as with lenders.

Q4. Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households? The share of formal sector credit is higher for the richer households?

Ans. → Richer households are in a better position to provide collateral & other necessary documents which are required by banks & co-operatives. Richer households have greater capacity to repay the loans compared to the poor households.