

Exercise

Q5 Why do we need to expand formal sources of Credit in India?

A → There is need to expand formal sources of credit in India as:

(i) This would lead to higher incomes & many people could then borrow cheaply for a variety of needs.

(ii) They could grow crops, do business, set up small-scale industries etc.

(iii) They could set up new industries / trade in goods. Cheap & affordable credit is crucial for the country's development.

Q6. What is the basic idea behind the SHGs for the poor? Explain in your own words.

A → The basic idea behind SHGs are :-

(a) To collect savings of their members.

(b) To provide timely loans for a variety of purposes.

(c) To provide loans at responsible rate of interest & easy terms.

(d) To organize rural poor especially women into small self help groups.

→ The basic behind the SHGs is to provide a financial resource for the poor through organizing the rural poor especially women, into small self groups. They also provide timely loans at a responsible interest rate without collateral.

Q7. What are the reasons why the banks might not be willing to lend to certain borrowers?

A → The banks might not be willing to lend certain borrowers for the following reasons :-

(i) Banks require proper documents & collateral as security against loans. Some persons fail to meet these requirements.

(ii) The borrowers who have not repaid previous loans, the banks might not be willing to lend them further.

(iii) The banks might not be willing to lend those entrepreneurs who are going to invest in the business with high risks.

Q8. In what ways does the RBI supervise the functioning of banks? Why is this necessary?

A → The RBI monitors the amount of money that banks loan out, & also the amounts of cash balance maintained by them. It also ensures that banks give out loans not just to profiteering business but also small cultivators, small-scale industries & small borrowers. Periodically, banks are supposed to submit information to RBI on the amounts lent to whom & at what rates of interest.

→ This monitoring is necessary to ensure that equality is preserved in financial sector, & that small industries are also given an outlet to grow. This is also done to make sure that banks do not loan out more money than they are supposed to, as this can lead to a situation like the Great Depression of 1930s in USA, which greatly affected the world economy as well.

Q9. Analyse the role of Credit for development.

A → Development is sustained by a proper credit policy. By giving loans to agriculture, industry & trade, banks provide them with the necessary funds for carrying on their business without problems relating to finance. This results in increased production & services, more employment & profits. Govt. also needs credit for its development projects. Importance: Availability of credit is very imp. for development.