

1st

1. In a situation with high rates, credit might create further problems for borrowers. Explain

A. In situations with high risks, credit might create further problems for borrowers. This is known as debt-trap. Taking credit involves an interest rate on loan. If that is not paid back, then borrower is forced to give up his collateral or assets used as guarantee to the lender.

2. How does money solve problem of double coincidence of wants? Explain with an example.

A. Double coincidence of wants is an essential feature in barter system where goods are directly exchanged without use of money. But on other hand in a economy where money is in use, money by providing crucial intermediate step eliminates the need for double coincidence of wants. A person holding money can easily exchange it for any commodity that he or she wants.

Ex. It is no longer necessary for shoemaker to look for farmer who will buy his shoes. I can sell some shoes to rice. All he has to do is find a buyer for his shoes. Once he has exchanged his shoes for money, he can purchase rice or any commodity in market.

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

A (i) Bank keep small proportion of their deposits as cash with themselves

(ii) Major portion of deposits is used for extending loans.

(iii) The bank mediate between depositors & borrowers in this way.

(iv) They charge high rate of interest on loans that what they offer on deposits.

4. Look at a ₹10 note, what is written on top? Can you explain this statement?

A On top of ₹10 note "Reserve Bank of India, Guaranteed by the Central Govt" is written. It implies notes are issued by RBI on behalf of Central Govt. This means that the currency is authorised by Central Govt. & no one can refuse payment made in it.