

EXERCISE

① In situations with high risks, credit might create further problems for the borrower. Explain.

Ans - Yes, it is true. In situations of high risk, taking credit may increase the problem. Borrower may not be able to pay back the credit taken and lose whatever he has, to repay the loan back. For ex - a small farmer has taken a loan to meet cultivation expenses. In case, the crop fails, he will not be able to repay the loan and may have to sell part of his land for repaying the loan.

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

Ans - ~~Double~~ In double coincidence of wants need the agreement of the buyer or seller for the exchange of goods and services. Using money as a medium of exchange, eliminates the

double coincidence of wants by providing the crucial intermediate step of exchange.

For example - it is not necessary for a shoe maker to look for a rice farmer who will buy shoes made by him at the same time. With this money, he can purchase rice or any other commodity available in the market.

3) How do banks mediate between those who have surplus money and those who need money?

Ans - People having surplus money deposit it in their banks. In this way, banks have large amount of deposit money.

→ Banks hold 15% of deposit and rest 85% is given as loans to those who need to borrow. Here depositors and borrowers

do not know each other but banks extend the deposit as loans. In this way, banks act as a mediator who have surplus money and those who need money.

4) Look at a ₹10 note. What is written in top? What can you explain this statement?

Ans - The following words are written on the top of ₹10 note -

Reserve Bank of India

Guaranteed by central government
I promise to pay the bearer the sum of Ten Rupees Governor

→ These words state that ₹10 note is acceptable as a medium of exchange because it is authorised by our government. As per Indian law, no other individual or organisation is

allowed to issue currency.

3) Why do we need to expand formal sources of credit in India?

Ans - The reasons for expanding formal sources of credit in India are -

(i) High cost of borrowing leads to a major share of earnings going into payment of interest on the loan, so formal sources of credit is needed.

(ii) Sometimes the higher interest rate leads to the requirement to pay more than the earnings, thus falling into a debt-trap.

(iii) Borrowers falling into debt-traps discourage more people from borrowing which ultimately reduces development of country.

(iv) It leads to ~~more~~ lending to more borrowers will lead to higher incomes and many people could then borrow cheaply for a variety of needs like growing crops, set up business or small-scale industries.

6) What is the basic idea behind the SHG's for the poor? Explain

Ans → They can get timely loans for a variety of purposes at a reasonable interest rate in the name of the SHG of which they are members. The SHG's are thus the building blocks of organisation of the rural poor.

7) What are the reasons why the banks might not be willing to lend to certain borrowers?

Ans - A number of borrowers have no collateral as security against loans, particularly small

farmers and poor people. A collateral is an asset that the borrower owns and keeps as a guarantee to the lender until the loan is repaid.

8) In what ways does the RBI supervise the functioning of banks? Why is this necessary?

Ans - The RBI supervises the functioning of banks as follows -

(i) The RBI checks that the banks actually maintain a minimum cash balance out of the deposits they receive.

(ii) The RBI ensures that the banks give loans not just to big businesses and traders, but also to small cultivators and borrowers.

→ This supervision is necessary to ensure that small businesses also grow. This monitoring

also ensure that banks do not loan more money than they are supposed to, as such as action can create a crisis situation.

9) Analyse the role of credit for development.

Ans:

→ It provides funds to grow entrepreneurs across the country.

→ It provides cultivators for betterment of agricultural practices.

→ When everyone leads a good life then development takes place.

10) Manav needs a loan to set up a small business. On what basis will Manav decide whether to borrow from the bank or the moneylender? Discuss.

Ans- Manav will decide wheater to borrow from a bank or money lender on the basis of the following loans terms

- (i) The collateral and documentation required, which he should be able to make available.
 - (ii) The rate of interest to be charged from him.
 - (iii) The mode of repayment, its periodicity, in cash etc.
 - (iv) The penalty in case of default in repayment.
- (11) (a) Small farmers have no collateral to pledge against loans and since farming is a high risk activity, banks are unwilling to lend to small farmers.

(b) Small farmers take loans from cooperatives or SHG's or informal sector credit sources like moneylenders, traders, etc.

(c) Ex - when the crop fails due to severe drought then the farmer has to sell part of his land to repay the loan. Thus, his condition becomes worse than before.

(d) Small farmers can get cheap credits from sources like Grambank, agricultural cooperatives, & SHG's, etc.

(12) (i) Majority of the credit needs of the poor households are met from informal sources.

(ii) High costs of borrowing increase the debt-burden.

(iii) RBI issues currency notes

on behalf of the Central government.

(iv) Banks charge a higher interest rate on loans than what they offer on deposits.

(v) Collateral is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

(13) (i) In a SHG most of the decisions regarding savings and loans activities are taken by - (b) Members.

(ii) Formal sources of credit does not include - (c) Employers.

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