

Let's work these out

② Formal sources of credit

① The rate of interest is low.

② There is a need of collateral.

③ It is controlled or supervised by RBI

④ More paper documentation and time consuming.

⑤ EX - Cooperatives and Banks.

③ Informal sources

① Rate of interest is high.

② They may or may not ask for collateral.

③ No organisation is there to supervise the work of informal sources of credit.

④ Less paper documentation and less time consuming.

⑤ Industrialists, companies, relatives, etc.

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

Ans- Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheaper loan rates.

③ should there be a supervisor, such as the RBI, that looks into the loan activities of informal lenders? (why would its task be quite difficult?)

Ans- There should be a supervisor for checking the loans activities of informal lenders.

However, its task is quite difficult because informal sector consists of large number of people who may have other businesses of their own, besides lending. It is not possible to register them.

④ why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households?

Ans → The share of the formal sector credit is higher for the richer households because the richer households are better position to provide collateral and other necessary documents which are

required by the Banks.

Richer households have means to exert pressure on Banks and Cooperatives to sanction loans. These households have greater capacity to repay the loans as compared to the poor households.