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

Ans) We need to expand formal sources of credit in India because

i) There is no organisation which supervises the credit activities of lenders in the informal sector.

ii) There is no one to stop them from using renter means to get their money back.

iii) formal sources of credit are less risky and they charge less rate of interest.

iv) The RBI supervises the functioning of formal sources of loans.

So what is the basic idea behind the steps to the poor? Explain in your own words.

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

Q. In what ways does the Reserve Bank of India supervise the functioning of banks? why is this necessary?

Ans) The supervision of RBI is necessary for the following reasons:

i) It ensures safety to the bank deposits of people.

ii) It helps in collection of economic data all over the country.

iii) It contains corrupt practices from creeping within banks.

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Q. Analyse the Role of credit for development.

Development is sustained by a proper credit policy. By giving loans to agriculture, industry and trade, banks provide them with the necessary funds for carrying on their business without problems relating to finance. This results in increased production and services, more employment and profits.