

Let's work these out

1. What are the differences between formal and informal sources of credit?

Ans Formal sources

* Richer people having assets which can be pledged as collateral

* Rate of Interest is low.

* Ex:- Banks and co-operative societies

* collateral can be confiscated and sold to recover the loan.

Informal sources

* Poorer people ~~to~~ not having assets which can be pledged

* Rate of Interest is very high.

* Ex:- Traders, money lenders, landowners, etc

* Borrowers can be made to part with land owned by them

2. 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

loans.

3. Should there be a supervisor, such as the Reserve Bank of India, 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 loan activities of informal lenders. However, its task is quite difficult because informal sector constitutes many people who have different kind of business of their own, besides lending. They are not registered with the government.

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 in a better position to provide collateral and other necessary documents which

are required by the banks and co-operatives. Richer households have means to exert pressure on banks and co-operatives to sanction loans. Richer households have greater capacity to repay the loans compared to the poor households.