

(Q1) In situation with high risks, credit might create future problems for the borrower. Explain.

In situations with high risks, credit might create future problems for the borrower. This is also known as a ~~def~~ debt-trap. Taking credit involves an interest rate on the loan and if this is not paid back, then the borrower is forced to give up his collateral or asset as the guarantee, to the lender. Thus, the situations with high risks affect a borrower badly, then he ends up losing more than he would have without the loan.

(Q2) How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Money solves the problem of double coincidence of wants by acting as a medium of exchange. Double coincidence of wants implies a situation where two parties agree to sell and buy each other's commodities, i.e., what one party wishes to buy is ~~what~~ exactly what the other party wants to buy. Money does away with this tedious and complex situation by acting as a medium of exchange that can be used for one and all commodities. For example, if an ice-cream vendor wants to buy a bicycle but the bicycle manufacturer wants clothes, and not ice-creams, then the vendor can ~~use~~

money to buy the bicycle. He does ^{not} need to adhere to the bicyclist man's needs. ~~but~~ because money acts as the common medium of exchange. Similarly the bicycle manufacturer can then use the money to buy clothes.

Q8) How do banks mediate ^{between} those who have surplus money and those who need money?

A bank mediate ~~for~~ between those who have surplus money and those who need money by allowing both to open accounts with it. Banks only keep about 15% of cash reserves to provide to people who come to withdraw money on a daily basis. Those with surplus money are encouraged to invest with bank and are paid a certain rate of interest for the same. Those who need loans are required to pay an interest on their loans. The difference between payment to lenders and receipt from borrowers comprises the bank's earnings. Thus the bank acts as a beneficiary for those ~~who~~ with surplus money as well as those who need money.

Q4) Look at a 10 rupee note. What is written on top? Can you explain this statement?

A ten rupee note has "Reserve Bank of India" written at the top, along with a statement "guaranteed by the central government", following it - It is a promising note and can only be issued by the Reserve Bank of India which supervises all money-related functions in the formal sector, in India. The statement on the ten-rupee note relates to this idea that the RBI is the central organ in the working of money-related activities.