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Let's work these out (Pg-50)

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

Formal

Informal

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|--|---|
| (i) Among the formal sector people can take loans from banks and cooperatives.   | (i) The informal lenders include money lenders, traders, employers, relatives and friends etc.          |
| (ii) The Reserve Bank of India supervises the functioning of formal sources of loans.  | (ii) There is no organisation which supervises the credit activities of lenders in the informal sector. |
| (iii) Formal sector loans are given at a low rate of interest.   | (iii) Informal sector loans are given at a high rate of interest.                                       |
| (iv) It is the richer households who receive credit from formal sources.   | (iv) The poor have to depend on the informal sources.   |
| (v) Formal sector loans require documentation and collateral. This is used as a guarantee to the lender until the loan is paid back. | (v) Informal sector loans do not require collateral.  |

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

Credit at reasonable rates should be available for all to enable the poor to get ~~the~~ cheaper loans. Usually they avoid loans due to high rate of interest. If cheaper loans are available for them, they will improve their condition by dint of this facility.

(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?

Yes, there should be a supervisor for looking into the loan activities of informal lenders. Its task is quite difficult in formal sector constitutes many people such as money lenders, friends, relatives, traders etc. These people are involved in different kinds of businesses of their own besides lending. Also they are not registered with the government.

(Qn) why do you think that the share of formal sector credit is higher for the richer <sup>households.</sup> ~~are~~ compared to the poorer households?

Credit is

The share of formal sector credit is higher for the richer household compared to the poorer households because richer households have better capacity to repay the loans within the given frame of time. Also they have collateral and other necessary documents which are required by the banks and cooperatives. ~~poor~~ Poor people usually lack collateral or other assets.