Economics H/w

Exercise question.

(1) In situation with high risks, credit might create further problems for the borrowers. This is also known as a dept-trap. Taking credit involves an intrest rate on the loan and if this is not paid back then the borrower is forced to give up his collateral or asset used as the guarantee, to the lender. In situation with this high risk, if the risk affect a borrower very badly, then he ends up losing more than he would have without the loan.

(2) Money solves the problems 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. money act as a medium of exchange that can be used for one and all commodities. for an example, if an ice-cream vendor wants a bicycle but the manufacturer of bicycle then the bicycle man's needs because money act as the common medium of exchange, similarity. similarily the bicycle manufacturer can then use the money to buy clothes.

3. A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it. Banks keeps 15% of cash reserve to the people who come to withdraw money on a daily basis. Those with surplus money are encouraged to invest with the bank and paid a certain rate of interest for the same. So the bank acts as a beneficiary for those with surplus money as well as those who needs money.

(4) A ten rupee note. What is written on top Reserve bank of India. along with a statement guaranteed by central government. It can be be issued only by the Reserve Bank of India (RBI) which supervises all money related function in India.