

## Home assignment

Q5, 6, 8, 9

(Q5) Why do we need to expand formal sources of credit in India?

ans- we need to expand formal sources of credit in India for two main reasons. First is to reduce dependence on informal sources of credit because the latter charge high interest rates and do not benefit the borrower much. Secondly, they will be able to provide loans to a larger group of people who trust govt. sanctioning more than a private system.

(6) What is the basic idea behind the SHGs for the poor? Explain in your own words.

ans- The basic idea behind the SHGs for all the poor is to provide them with a vista for self help in financial areas. A self-help group is a small group comprising people in the rural areas who collect their

savings and loan these out to members on an interest rate lower than that charged by the informal sectors. If the SHG functions well for over a year, then it becomes eligible for loans from banks. Thus, they become economically upgraded and are not dependent on moneylenders anymore.

(8) In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

ans- The Reserve bank of India monitors the amount of money that banks loan out, and also the amount of cash balance maintained by them. It also ensures that banks give out loans not just to profit-seeking business but also to small cultivators, small borrowers. So banks are supposed to submit information to the RBI on the amounts lent, to whom, and at what rates of interest.

This monitoring is necessary to ensure that equality is preserved in the financial sector, and that small industries are also given an outlet to grow. This is also done to make sure the banks don't loan out more money, as this can lead to the situation like the Great Depression of the 1930s in the USA.

(Q9) Analyse the role of credit for development .

ans- credit plays a crucial role in a country's development. By sanctioning loans to developing industries and trade, banks provide them with the necessary aid for improvement, which leads to increase in production, profits and employments. For this reason, it is important that the formal sector gives out more loans so that borrowers are not duped by money lenders, and can ultimately contribute to national development.