

## EXERCISE

1. In situations with high risks, credits might create further problems for the borrower. Explain.

A In situations with high risks, credits might create further problems for the borrower. Taking credits involves an interest rate on the loan and if not paid, then borrower is forced to give up his collateral used as a guarantee, to the lender. The borrower faces loss, thus further falls in the trap of credit. This is called debt trap. If the risks affect the borrower badly, then he may end up losing more than he would have without loan.

2. How does money solve the problem of double coincidence of wants? Example with an example of your own.

A Double coincidence of wants is an essential feature of barter system. Money, as a medium of exchange removes the need of double coincidences of wants and difficulties associated with barter system. For example, it is no longer necessary for a person to look for a person who offers him shoes instead in exchange of his books. He has to first sell the books to buyer in exchange of money and then use the money to buy himself his shoes or any other commodity.

3. How do banks mediate between those who have surplus money and those who need money?

A Banks keep 15% of the deposits to pay the depositors on demand. They use major part of the deposits to extend loans to ~~us~~ those who ~~are~~ need money.

A higher interest is charged for the borrower and that profit is given to the depositor as interest for offering deposits.

4. Look at 10 ~~rupee~~ rupee note. What is written on top? Can you explain this statement?

A 'Reserve Bank of India' and 'Guaranteed by government' are ~~are~~ written on top of a 10 rupee note.

In India, Reserve Bank of India issues currency notes on ~~be~~ behalf of the central government.

Currency is authorized by the central government of India. These two are the only authorities which are responsible for issuing notes & currency in India.