

# CHAPTER 4.3

## Money and Credit

### ONE MARK QUESTIONS

1. Give any two examples of informal sector of credit.

**Ans :** [CBSE 2018]

The two examples of informal sector of credit are moneylenders and friends.

2. Highlight the inherent problem, in double coincidence of wants. [CBSE 2017]

**Ans :**

The inherent problem in double coincidence of wants is both the parties (seller and the buyer) have to agree to buy and sell each other's commodities.

3. How does the use of money make it easier to exchange things? Give an example. (All India 2017)

**Ans :**

In barter system, if a shoe manufacturer wants to sell shoes and buy wheat, first he has to look for a wheat-growing farmer who wants to buy shoes and needs to sell wheat.

Money can make it easier to exchange the things. The shoe manufacturer can sell the shoes for money and then with that money he can buy wheat.

4. How is money beneficial in transactions?

**Ans :** (Foreign 2017)

Money is beneficial in transactions as we can directly settle the transaction with use of it.

5. How do the deposits with the banks become their source of income? (Delhi 2016)

**Ans :**

With the deposits in the bank, the bank use it to extend loan to the borrowers with the high rate of interest. Bank pays less rate of interest to the depositors. The difference is the source of income of the banks.

6. Why can one not refuse a payment made in rupees in India? (Delhi 2016)

**Ans :**

One cannot refuse a payment made in rupees in India because it is authorized by the government of the country.

7. Compare formal sector loans with informal sector loans regarding interest only. (Delhi 2016)

**Ans :**

The rate of interest charged by the formal sector is low whereas it is high in case of the informal sector.

8. Why is the supervision of the functioning of the formal

sources of loans necessary? (All India 2016)

**Ans :**

The supervision of the functioning of the formal sources of loans necessary to protect the borrowers from any kind of harassment as done in the informal sector.

9. Prove with an argument that there is a great need to expand formal sources of credit in rural India.

**Ans :** (All India 2016)

There is a great need to expand formal sources of credit in rural India so that the people can be protected from the clutch ' of the moneylenders and improve their economic condition.

10. Why are most of the poor households deprived from the formal sector of loans? (All India 2016)

**Ans :**

As the banks are not available everywhere in the rural areas and also due to its documentation process, most of the poor households are deprived from the formal sector of loans.

11. How does money eliminate the need for double coincidence of wants? (Foreign 2016)

**Ans :**

Money acts as an intermediate in the exchange process and thus eliminates the need for double coincidence of wants.

12. What is the meaning of barter system? (Delhi 2015)

**Ans :**

In the earlier times, before the introduction of money, goods and services were exchanged with goods and services. This system of exchange was termed as barter system.

13. What is meant by double coincidence of wants?

**Ans :** (All India 2015)

An essential feature of barter system is double coincidence of wants in which, both the parties (seller



and the buyer) have to agree to buy and sell each other's commodities.

14. How does money act as a medium of exchange?

**Ans :** (All India 2015)

Money acts as an intermediate in the exchange process and eliminates the need for double coincidence of wants. As money acts as intermediate, it is also called medium of exchange.

15. What is a cheque? (Foreign 2015)

**Ans :**

A cheque is a paper that instructs the bank to pay a specific amount from the holder's account to the person in whose name the cheque has been issued.

16. Who supervises the functioning of the formal sources of loans? (Foreign 2015)

**Ans :**

The functioning of the formal sources of loans is supervised by the Reserve Bank of India.

17. What are the two forms of modern currency?

**Ans :** (Foreign 2015)

Paper notes and coins are the two forms of modern currency.

18. What is collateral? (All India 2010)

**Ans :**

It is an asset that the borrower owns and given to the lender as a guarantee that he will repay the loan. If the borrower is unable to repay the loan then the lender has the right to sell it and get the money back.

19. Define credit.

**Ans :** (All India 2010)

Credit is an agreement between the lender and the borrower in which the borrower promises to pay the lender in the future.

20. Which are the two major sources of formal loan for rural households. (All India 2010)

**Ans :**

The two major sources of formal loan for rural households are Banks and Cooperatives.

## THREE MARKS QUESTIONS

21. Why is cheap and affordable credit important for the country's development? Explain any three reasons.

[CBSE 2018, Delhi 2012]

or

"Cheap and affordable credit is crucial for the country's development." Assess the statement.

**Ans :** [Delhi 2016]

Due to the following three reasons, cheap and affordable credit is important for the country's development:

- It will help people to take credit for variety of reasons.
  - It will help poor people to get rid of the problem of moneylenders and their high rate of interest.
  - It will be easy for the people to repay the loan.
22. "Banks are efficient medium of exchange." Support

the statement with arguments. (CBSE 2017)

**Ans :**

Yes, it is true to say that Banks are efficient medium of exchange.

People have extra cash with them. Those having extra cash open a bank account in their name and deposit the surplus money there.

Out of the total money deposited with the banks 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day. Rest of the amount is used to extend loan to the borrowers.

23. Explain any three loan activities of banks in India.

**Ans :** (All India 2017)

The three loan activities of the banks are:

- People have extra cash with them. Those having extra cash open a bank account in their name and deposit the surplus money there.
- Out of the total money deposited with the banks, 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day.
- Rest of the amount is used to extend loan to the borrowers.

24. Illustrate with examples the role of loan in business.

**Ans :** [Foreign 2017]

The loan plays two different role in business:

- Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money. For example, Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes. In the end he delivered the order, made profit and repaid the loan.
- Sometimes credit is very painful as it pushes the borrower into such a situation from where recovery is very difficult. In this situation, the borrower is not able to repay the loan and many a times caught into the situation of debt-trap. For example, a small farmer Swapna took loan for crop cultivation but due to some reason she faced the situation of crop failure. So she took another loan for spraying pesticides but the production was not enough to repay the loan. So she was caught in debt-trap.

25. Describe the utility of Cheque.

**Ans :** [CBSE 2017]

A Cheque is a paper that instructs the bank to pay a specific amount from the account holder's account to the person in whose name the Cheque has been issued. Demand deposits are accepted as a means of payment because the depositors get the facility of Cheque against it, which is used to settle the transaction without the use of money.

26. How can money be easily exchanged for goods and services? Give an example to explain. (Delhi 2016)

**Ans :**

If a shoe manufacturer wants to sell shoes and buy wheat, then first he has to look for a wheat-growing

farmer who wants to buy shoes and needs to sell wheat.

Money can make it easier to exchange the things. The shoe manufacturer can sell the shoes for money and that money can be used to buy wheat.

27. "The credit activities of the informal sector should be discouraged." Support the statement with arguments.

**Ans :** (Delhi 2016)

It is true to say that the credit activities of the informal sector should be discouraged. It is due to the following reasons:

- They charge high rate of interest in comparison to that of formal sector.
- Thus the cost of borrowing is high.
- Due to high cost of borrowing, the borrowers have to repay more and they will have less saving, which will hinder individual economic development and ultimately will affect the country's economic development.

28. "Deposits with the banks are beneficial to the depositors as well as to the nation." Examine the statement.

**Ans :** (All India 2016)

Those having extra cash open a bank account in their name and deposit the surplus money there. Their money is safe with the banks and they get some interest rate on the amount they have deposited. Out of the total money deposited with the banks, 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day. Rest of the amount is used to extend loan to the borrowers.

This helps other people to run and expand their business which will increase the individual income and finally the country's income.

29. 'Credit has its own unique role for development.' Justify the statement with arguments.

**Ans :** (All India 2016)

Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money. For example, Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes. In the end he delivered the order, made profit and repaid the loan. Sometimes, credit is very painful as it pushes the borrower into such a situation from where recovery is very difficult. In this situation the borrower is not able to repay the loan and many a times caught into the situation of debt-trap. For example, a small farmer Swapna took loan for crop cultivation but due to some reason she faced the situation of crop failure. So she took another loan for spraying pesticides but the production was not enough to repay the loan. So she was caught in debt-trap.

30. How is money transferred from one bank account to another bank account? Explain with an example.

**Ans :** (Foreign 2016)

In modern times we have different options to transfer the money from one bank account to another such as through Cheque, draft, internet banking etc.

A Cheque is a paper that instructs the bank to pay a specific amount from the holder's account to the person in whose name the cheque has been issued.

In case of a Cheque, a person writes a Cheque in the name of the person in whose account the money is to be transferred. Then it is deposited by the person in his/ her bank. The bank transfers the amount to the person on whose name the cheque is drawn.

31. "Poor households still depend on informal source of credit." Support the statement with examples.

(Foreign 2016)

or

"Most of the poor household still depend on the informal sector for loans, both in rural and urban areas of India." Support the statement with three examples.

**Ans :** (Foreign 2012)

Yes, it is true that the poor households still depend on informal source of credit. It is due to the following reasons:

- Banks are not present everywhere.
- Collateral is required by the formal sector loan providers.
- Many a time, the moneylenders know the borrowers personally and willing to pay the loan without any collateral.

32. Why is it necessary for the banks and the cooperative societies to increase their lending facilities in the rural areas? Explain.

(Delhi 2015)

or

Why is there a great need to expand formal sector of credit in India? Explain any three reasons.

**Ans :** (Foreign 2012)

Due to the following reasons it is necessary for the banks and the cooperative societies to increase their lending facilities in the rural areas:

- There is limited availability of the formal sector credit sources in the rural areas.
- The poor borrowers are bound to take loan from the moneylenders at high rate of interest.
- Due to high rate of interest they are not able to repay the loan and caught in debt-trap.

33. Why is modern currency accepted as a medium of exchange without any use of its own? Find out the reason.

**Ans :** (All India 2015)

Modern currency accepted as a medium of exchange without any use of its own due to the following reasons:

- In the modern times, currency notes and coins are used as a medium of exchange.
- These are not made of any precious metals even though used as a medium of exchange because the government of the country authorizes the currency.
- As the law legalizes the use of rupee, so no individual can refuse a payment made in rupees. Therefore, rupee is widely accepted as a medium of exchange.

34. "Money has made transactions easy." Justify.

(Foreign 2015)

or

How is money used as a medium of exchange? Explain with examples. (Delhi 2013)

or

How does money solve the problem of double coincidence of wants? Explain with an example.

**Ans :** (Delhi 2014)

In barter system, if a shoe manufacturer wants to sell shoes and buy wheat, first he has to look for a wheat-growing farmer who wants to buy shoes and needs to sell wheat.

Money can make it easier to exchange the things. The shoe manufacturer can sell the shoes for money and then that money can be used to buy wheat.

**35.** How is money used in everyday life? Explain with examples. (Delhi 2014)

**Ans :**

Use of money in our daily life:

- Money has become an essential part of life.
- For any kind of exchange of goods and services, we need money.
- In earlier times, when money was not in use, grains and cattle were used which was quite difficult as we had to face the problem of double coincidence of wants. But now for every transaction we are using money.

**36.** Explain with examples, how people are involved with the banks. (Delhi 2014)

**Ans :**

Three different people are involved in this process- depositors, bank and the borrowers.

Those having extra cash open a bank account in their name and deposit the surplus money there. Their money is safe with the banks and they get some interest rate on the amount they have deposited. Those who open an account and deposit money in it are called depositors.

Out of the total money deposited with the banks 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day. Rest of the amount is used to extend loan to the borrowers.

This is how the banks mediate between the depositors and the borrowers i.e. those having surplus and those who are in need of money.

**37.** Explain with an example, how credit plays a vital and positive role for development? (All India 2014)

**Ans :**

Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money. For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes, in the end he delivered the order, made profit and repaid the loan.

**38.** Why do lenders ask for a collateral while lending? Give any three reasons. (Foreign 2014)

**Ans :**

The lenders ask for a collateral while lending due to

the following reasons:

- It is an asset that the borrower owns and given to the lender as a guarantee that he will repay the loan.
- If the borrower is unable to repay the loan then the lender has the right to sell it and get the money back.
- By this the borrower is bound to pay the loan within the defined time period.

**39.** What are the modern forms of money? Why is rupee widely accepted as a medium of exchange? Explain two reasons.

**Ans :** (Delhi 2013)

In the modern phase, currency notes- paper notes and coins are used as a medium of exchange.

These are not made of any precious metals even though used as a medium of exchange because the government of the country authorizes the currency.

As the law legalizes the use of rupee, so no individual can refuse a payment made in rupees. Therefore, rupee is widely accepted as a medium of exchange.

**40.** What is a collateral? Why do lenders ask for collateral while lending? Explain. (Delhi 2013)

**Ans :**

It is an asset that the borrower owns and given to the lender as a guarantee that he will repay the loan. If the borrower is unable to repay the loan then the lender has the right to sell it and get the money back. The lenders ask for a collateral while lending due to the following reasons:

- It is an asset that, the borrower owns and given to the lender as a guarantee that he will repay the loan.
- If the borrower is unable to repay the loan then the lender has the right to sell it and get the money back.
- By this the borrower is bound to pay the loan within the defined time period.

**41.** 'Cheap and affordable credit is essential for poor household both in rural and urban areas.' In the light of the above statement, explain the social and economic values attached to it. (All India 2013)

**Ans :**

Due to the following three reasons cheap and affordable credit is important for the country's development:

- It will help people to take credit for variety of reasons.
- It will help poor people to get rid of the problem of moneylenders and their high rate of interest.
- It will be easy for the people to repay the loan.

Social values: Due to cheap and affordable credit people will not be discriminated and ill-treated by the lenders.

Economic values: Due to the cheap and affordable credit the borrowers will easily repay the loan and there will be economic development,

**42.** Explain any four terms of credit with examples.

**Ans :** [All India 2011]

Terms of credit includes interest rate, collateral,

documents, mode of repayment etc.

Suppose a person taking a loan of 5 lakhs at 5% rate of interest from the bank. He has kept his house with the bank as a guarantee of repayment. He agreed to pay the monthly instalment.

43. Explain two points of differences between formal and informal sources of credit. (Foreign 2011)

**Ans :**

The two points of differences between formal and informal sources of credit are:

- Formal sector credit charge less rate of interest whereas informal sector credit charges very high rate of interest.
  - Formal sector credit is easy to repay whereas the informal sector credit is difficult to repay.
44. How does the use of money make the exchange of things easier? Explain with examples. (Delhi 2010)

**Ans :**

In barter system, if a shoe manufacturer wants to sell shoes and buy wheat, and then first he has to look for a wheat growing farmer who wants to buy shoes and needs to sell wheat.

Money can make it easier to exchange the things. The shoe manufacturer can sell the shoes for money and then that money can be used to buy wheat.

45. What are demand deposits? How is money safe in the banks? Explain. (Foreign 2013)

**Ans :**

Depositors are those who open an account and deposit money in the banks. Depositors can withdraw their money as and when they require therefore, these deposits are also called demand deposits.

Those having extra cash open a bank account in their name and deposit the surplus money there. Their money is safe with the banks and they get some interest rate on the amount they have deposited.

46. What is money? Why is modern money currency accepted as a medium of exchange? (Delhi 2012)

**Ans :**

Money is a medium of exchange used in settling the transactions.

- Money acts as an intermediate in the exchange process and eliminates the need for double coincidence of wants. As money acts as intermediate, it is also called medium of exchange.
  - People have exchanged their goods and services since from the beginning. The medium of exchange kept on changing in different phases.
  - In the modern phase currency notes- paper notes and coins are used as a medium of exchange.
  - These are not made of any precious metals even though used as a medium of exchange because the government of the country authorizes the currency.
  - As the law legalizes the use of rupee, so no individual can refuse a payment made in rupees. Therefore, rupee is widely accepted as a medium of exchange.
47. "Whether credit will be useful or not, depends upon

the situation." Give two different examples in support of this statement. (Foreign 2012)

**Ans :**

It is true to say that the usefulness of credit depends on the situations.

Positive role of credit: credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money. For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes, in the end he delivered the order, made profit and repaid the loan. Negative role of credit: sometimes credit is very painful as it pushes the borrower into such a situation from where recovery is very difficult. In this situation the borrower is not able to repay the loan and many a times caught into the situation of debt-trap. For example:-a small farmer Swapna took loan for crop cultivation but due to some reason she faced the situation of crop failure. So she took another loan for spraying pesticides but the production was not enough to repay the loan. So she was caught in debt-trap.

48. How do self-help groups help borrowers to overcome the problem of lack of collateral? Explain with an example.

**Ans :**

(Foreign 2012)

This is a new idea to organize rural poor particularly women who pool their savings. Generally, this group has 15-20 members. Members belong to the neighbourhood so that they can meet and save regularly. Saving per member varies from ₹ 25 to ₹ 100 or more, depending on the economic condition of the member.

When the group is regular in saving for a year or two then the group is eligible for getting loan from the bank. Bank provide loan in the name of the group and then the SHG gives loan to its members at very low rate of interest.

Loan matter is taken very seriously, as if any one member is not able to repay the loan then it is followed by other members and because of this feature, they get loan from the bank even though they have no collateral.

49. Mention any three points of distinction between formal sector loans and informal sector loans.

**Ans :**

(All India 2010)

The three points of distinction between formal sector loans and informal sector loans are:

- Banks and cooperatives are called the formal sector credit whereas moneylenders, friends etc. are called the informal sector credit.
- Formal sector credit charge less rate of interest whereas informal sector credit charges very high rate of interest.
- Formal sector credit is easy to repay whereas the informal sector credit is difficult to repay.

## FIVE MARKS QUESTIONS

50. What are self-help groups? How are they emerging as

an important source of credit? Explain. (Foreign 2013)  
or

‘Self-Help Groups’ help borrowers to overcome the problems of lack of collateral.” Examine the statement.

**Ans :** (Delhi 2017)

This is a new idea to organize rural poor particularly women who pool their savings. Generally, this group has 15-20 members. Members belong to the neighbourhood so that they can meet and save regularly. Saving per member varies from ₹ 25 to ₹ 100 or more, depending on the economic condition of the member.

When the group is regular in saving for a year or two then the group is eligible for getting loan from the bank. Bank provide loan in the name of the group and then the SHG gives loan to its members at very low rate of interest.

Loan matter is taken very seriously as, if any one member is not able to repay the loan then it is followed by other members and because of this feature, they get loan from the bank even though they have no collateral.

51. Review any three merits and any two demerits of ‘formal sector of credit’ in India. (Foreign 2017)

**Ans :**

Merits of formal sector credit in India:

- It provides cheap and affordable credit.
- Due to low cost of borrowing, the borrowers have to repay less and they will have more saving.
- The loan activities of the formal sector is supervised by the RBI.

Demerits of formal sector credit in India:

- Mostly people in the urban areas and the well-off households use it.
- Formal sector credit need proper documents and collateral before lending.

52. “Banks are playing an important role in the development of the Indian economy.” Support the statement with examples.

**Ans :**

Cheap and affordable credit is important for the country’s development because:

- It will help people to take credit for variety of reasons.
- It will help poor people to get rid of the problem of moneylenders and their high rate of interest.
- It will be easy for the people to repay the loan.

Those having extra cash open a bank account in their name and deposit the surplus money there. Their money is safe with the banks and they get some interest rate on the amount they have deposited. Out of the total money deposited with the banks, 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day. Rest of the amount is used to extend loan to the borrowers.

This helps people to run and expand their business which will increase the individual income and finally the country’s income. Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of

that money. For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes, in the end he delivered the order, made profit and repaid the loan.

53. Describe the vital and positive role of credit with examples. (Delhi 2016)

or

How does credit plays a vital and positive role? Explain with suitable example.

**Ans :** (Foreign 2010)

Credit : Credit is an agreement between the lender and the borrower in which the borrower promises to pay the lender in the future.

Positive role of credit: Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money. For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes, in the end he delivered the order, made profit and repaid the loan.

54. How can the formal sector loans be made beneficial for the poor farmers and workers? Suggest any five measures.

**Ans :** (All India 2016)

The formal sector loans can be made beneficial for the poor farmers and the workers by taking the following measures:

- There should be availability of more and more banks in the rural areas.
- Providing the loan to the poor at much cheaper rates.
- There should be easy access to loan.
- Depending on situation, farmers should be given credit without collateral.
- There should be provision of instant loan to the farmers and the poor.

55. How are deposits with banks beneficial for the individual as well as for the nation? Explain with examples.

**Ans :** (Delhi 2015)

Those having extra cash open a bank account in their name and deposit the surplus money there. Their money is safe with the banks and they get some interest rate on the amount they have deposited. Out of the total money deposited with the banks 15% of it is kept as minimum cash balance to pay to the depositors who might come to withdraw money from the bank on any given day. Rest of the amount is used to extend loan to the borrowers.

This helps people to run and expand their business which will increase the individual income and finally the country’s income.

56. What are Self-Help Groups? How do they work? Explain.

**Ans :** (Delhi 2015)

This is a new idea to organize rural poor particularly women who pool their savings. Generally, this group has 15-20 members. Members belong to the neighbourhood so that they can meet and save regularly. Saving per member varies from ₹ 25 to ₹

100 or more, depending on the economic condition of the member.

When the group is regular in saving for a year or two then the group is eligible for getting loan from the bank. Bank provide loan in the name of the group and then the SHG gives loan to its members at very low rate of interest.

Loan matter is taken very seriously, as if any one member is not able to repay the loan then it is followed by other members and because of this feature, they get loan from the bank even though they have no collateral.

Loan is provided to help them to create self-employment opportunities. All the group members together take decision regarding saving and loan activities. SHG helps women in making them financially self-reliant and provides platform to discuss and act on a variety of social issues.

57. How do banks play an important role in the economy of India? Explain.

**Ans :** (All India 2015)

People take credit from different sources, which can be grouped into two- formal sector loans and informal sector loans. Formal sector credit sources includes banks and cooperatives.

They charge less rate of interest in comparison to that of informal sector. Thus the cost of borrowing is less. Due to low cost of borrowing, the borrowers have to repay less and they will have more saving, which will cause individual economic development and ultimately will lead to the country's economic development. Therefore, it can be said that formal sources of credit provides us cheap and affordable credit, which is important for country's development.

Thus it is important that banks and cooperatives should increase their lending especially in the rural areas so that people will be less dependent on the informal sector.

58. What is credit? How does credit play a vital and positive role? Explain with an example.

**Ans :** (Foreign 2015)

Credit is an agreement between the lender and the borrower in which the borrower promises to pay the lender in the future. Credit plays a positive role when the borrower is able to return the loan amount on time and also made some profit with the use of that money.

For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pair of shoes, in the end he delivered the order, made profit and repaid the loan.

59. Why is it necessary for the banks and the cooperative societies to extend their lending activities in the rural areas? Explain. (Foreign 2014)

**Ans :**

Due to the following reasons it is necessary for the banks and the cooperative societies to extend their lending activities in the rural areas:

- There is limited availability of the formal sector credit sources in the rural areas.

- The poor borrowers are bound to take loan from the moneylenders at high rate of interest
- Due to high rate of interest they are not able to repay the loan and caught in debt- trap.
- Formal sector credit is required in the rural areas to expand the farming and small scale business activities.
- It is important for the individual development of the people in the rural areas.

60. What are the two categories of sources of credit? Mention four features of each.

**Ans :** (All India 2013)

The two categories of sources of credit are formal sector credit and informal sector credit.

Four features of formal sector credit are:

- Formal sector credit sources includes banks and cooperatives.
- Mostly people in the urban areas and the well-off households use it.
- Formal sector credit need proper documents and collateral before lending.
- They charge less rate of interest in comparison to that of informal sector. Thus the cost of borrowing is less.

Four features of informal sector credit are:

- Informal sector credit sources includes moneylenders, friends, relatives, traders etc.
- Mostly people in the rural areas and the poor households use it. Many a times informal sector don't ask for documents and collateral as they know the borrowers personally.
- They charge high rate of interest in comparison to that of formal sector. Thus the cost of borrowing is high.
- Due to high cost of borrowing, the borrowers have to repay more and they will have less saving, which will hinder individual economic development.

61. Which government body supervises the functioning of formal sources of loans in India? Explain its functions.

**Ans :** (All India 2012)

RBI is the government body which supervises the functioning of formal sources of loans in India.

Functions of RBI:

- RBI sees that the banks maintain the minimum cash balance or not.
- RBI monitors that the loan is not just given to the profit-making businesses and traders but also to the small borrower.
- RBI asks the banks to submit information like how much they are lending, to whom they are lending and at what rate of interest etc.

62. Describe any four advantages of Self-Help Groups for the poor. (Delhi 2011)

**Ans :**

This is a new idea to organize rural poor particularly women who pool their savings. Generally, this group has 15-20 members. Members belong to the neighbourhood so that they can meet and save regularly. Saving per member varies from ? 25 to ? 100 or more, depending on the economic condition of the member.

The four advantages of Self-Help Groups for the poor are:

- a. When the group is regular in saving for a year or two then the group is eligible for getting loan from the bank.
- b. Bank provide loan in the name of the group and then the SHG gives loan to its members at very low rate of interest.
- c. Loan matter is taken very seriously, as if any one member is not able to repay the loan then it is followed by other members and because of this feature, they get loan from the bank even though they have no collateral.
- d. Loan is provided to help them to create self-employment opportunities. SHG helps women in making them financially selfreliant and provides platform to discuss and act on a variety of social issues.

**63.** Why the deposits in the banks are called demand deposits? What are the benefits of deposits with the banks?

**Ans :** (Foreign 2010)

Depositors are those who open an account and deposit money in the banks. Depositors can withdraw their money as and when they require therefore, these deposits are also called demand deposits. Demand deposits are accepted as a means of payment because the depositors get the facility of Cheque against it, which is used to settle the transaction without the use of money.

The benefits of deposits with the banks are:

- a. People have extra cash with them. Those having extra cash open a bank account in their name and deposit the surplus money there.
- b. Their money is safe with the banks.
- c. They get some interest on the amount they have deposited.

**64.** When does credit push the borrower into a debt-trap? Explain with the help of an example.

**Ans :** (Foreign 2010)

Sometimes credit is very painful as it pushes the borrower into such a situation from where recovery is very difficult. In this situation the borrower is not able to repay the loan and many a times, caught into the situation of debt-trap. For example:-a small farmer Swapna took loan for crop cultivation but due to some reason she faced the situation of crop failure. So she took another loan for spraying pesticides but the production was not enough to repay the loan. So she was caught in debt-trap.

