

## Chapter 2: Money

### EXERCISE 1 [PAGE 13]

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#### QUESTION

**Complete the correlation:**

Primary function of money : Medium of exchange :: \_\_\_\_\_ : Transfer of value.

#### SOLUTION

Primary function of money : Medium of exchange :: **Secondary function of money** : Transfer of value.

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#### QUESTION

**Complete the correlation**

\_\_\_\_\_ : Basis of Credit :: Secondary function of money : Standard of deferred payments.

#### SOLUTION

**Contingent function of money** : Basis of Credit :: Secondary function of money : Standard of deferred payments.

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#### QUESTION

**Complete the correlation**

Commodity money : Shells :: \_\_\_\_\_ : Credit card.

#### SOLUTION

Commodity money : Shells :: **Plastic money** : Credit card.

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#### QUESTION

**Complete the correlation**

Divisibility : Smaller denominations :: \_\_\_\_\_ Easy to carry from one place to another

#### SOLUTION



Divisibility : Smaller denominations :: **Portability** : Easy to carry from one place to another.

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### QUESTION

**Complete the correlation**

Barter system : Goods :: Modern economy : \_\_\_\_\_

### SOLUTION

Barter system : Goods :: Modern economy : **Money**.

## EXERCISE 2 [PAGE 13]

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### QUESTION

**Suggest an economic term for the given statement:**

The act of exchanging goods for goods - \_\_\_\_\_

### SOLUTION

The act of exchanging goods for goods - **Barter exchange**

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### QUESTION

**Suggest an economic term for the given statement:**

Provision of making payments in future- \_\_\_\_\_

### SOLUTION

Provision of making payments in the future-**Deferred payment**

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### QUESTION

**Suggest an economic term for the given statement:**

A system that makes use of currency for facilitating payments - \_\_\_\_\_

### SOLUTION

A system that makes use of currency for facilitating payments - **Monetary system**

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## QUESTION

**Suggest an economic term for the given statement:**

Credit instrument through which bank deposits are transferable - \_\_\_\_\_

## SOLUTION

Credit instrument through which bank deposits are transferable - **Cheque**

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## QUESTION

**Suggest an economic term for the given statement:**

Monetary value stored and transferred electronically by means of computer hard drive or servers - \_\_\_\_\_

## SOLUTION

The monetary value stored and transferred electronically by means of computer hard drive or servers - **Electronic Money**

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## QUESTION

**Suggest an economic term for the given statement:**

Money not accounted for in the bank and not disclosed to the government - \_\_\_\_\_

## SOLUTION

Money not accounted for in the bank and not disclosed to the government - **Black money**

## EXERCISE 3 [PAGE 13]

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## QUESTION

**Choose the correct option:**

**Arrange in the order of evolution of money**

1. Metallic money
2. Animal money
3. Metallic coins
4. Commodity money

- a, b, c, d
- b, d, a, c



- d, c, a, b
- c, a, b, d.

### **SOLUTION**

**b, d, a, c**

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### **QUESTION**

**Choose the correct option:**

**Arrange in the order of evolution of money**

1. Plastic money
2. Paper money
3. Electronic money
4. Credit money

- b, d, a, c
- a, b, c, d
- d, c, b, a
- c, b, a, d.

### **SOLUTION**

**b, d, a, c**

### **EXERCISE 4 [PAGE 13]**

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### **QUESTION**

**Identify and explain the concept from the given illustration:**

Vasantsheth provides coal from his shop to farmers in exchange of food grains.

### **SOLUTION**

**(A) Identified concept:** Barter exchange.

**(B) Explanation of concept:** Barter exchange is a type of exchange in Which goods and services are exchanged for goods and services.

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### **QUESTION**



**Identify and explain the concept from the given illustration:**

Babnrao deposits his money in a nationalized bank.

**SOLUTION**

**(A) Identified concept:** Bank money.

**(B) Explanation of concept:** Bank money refers to deposits Which are in the form of cash saved by people in banks.

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**QUESTION**

**Identify and explain the concept from the given illustration:**

Charu used her debit card to purchase a shirt for her younger brother.

**SOLUTION**

**(A) Identified concept:** Plastic money.

**(B) Explanation of concept:** Plastic money is a money in the form of credit cards and debit cards that is used in transaction due to advanced technology.

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**QUESTION**

**Identify and explain the concept from the given illustration:**

Malathi purchased a house through an agent. The agent accepted the commission in cash but did not issue a receipt to her.

**SOLUTION**

**(A) Identified concept:** Black money.

**(B) Explanation of concept:** Black money is a type of money which is received in cash but not accounted for and on which tax is not paid to the government.

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**QUESTION**

**Identify and explain the concept from the given illustrations:**

To prevent misuse/fraudulent use of the national currency, a note ban is imposed on its use at certain times.

**SOLUTION**

**(A) Identified concept:** Demonetization.

**(B) Explanation of concept:** Demonetization is a tool of a Withdrawal of metal coins, paper notes from use as legal tender.

## EXERCISE 5 [PAGE 13]

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### QUESTION

**State with reason whether you Agree or Disagree with the following statement:**

There are no difficulties in the barter system.

- Agree
- Disagree

### SOLUTION

No, I do not agree with this statement.

#### Reasons:

**Lack of common measure of value :** While exchanging goods for goods, there was no standard unit of account to determine the value of a commodity. e.g., it was difficult to compare two liters of milk with two kilograms of rice.

**Problem of double coincidence of wants :** Lack of double co-incidence of wants was one of the major limitations of barter system. For instance, person 'A' has cloth and he wants rice in exchange and person 'B' has rice but he does not want cloth in exchange. In this case exchange between 'A' and 'B' would not take place as their wants do not coincide with each other.

**Indivisibility of certain goods :** In barter system it was inconvenient to divide animals, house etc. into small parts, so it was difficult to fix proportion of one commodity in exchange for another commodity, e.g. Individual 'A' has a sack of wheat and he wants a goat in exchange. Individual 'B' has a goat and he wants only half a sack of wheat. In this situation exchange between the two commodities is impossible due to indivisible nature of goat, for it being a live stock.

**Difficulties in storage of goods :** It is necessary to store goods for future consumption. Sometimes due to perishable nature of certain goods it was difficult to store them for future. Perishable commodities like milk, eggs, fish, vegetable etc. were difficult to store. Difficulties were also experienced due to lack of space required to store heavy and bulky goods.

**Problem of making deferred payments :** Deferred payment means payments to be made in future. Repayment of loan was difficult due to exchange of commodities,

E.g. it was difficult to repay the perishable goods in the same condition in future.

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### QUESTION



**State with reason whether you Agree or Disagree with the following statement:**

There are many good qualities found in modern currency.

- Agree
- Disagree

### **SOLUTION**

Yes, I agree with this statement.

#### **Reasons:**

#### **Definitions of Money:**

1. **Prof Crowther** "Money is anything that is generally acceptable as a means of exchange and at the same time gets as a measure and a store of value".
2. **Prof Walker**: "Money is what money does".

#### **The qualities of money are as follows:**

1. **General Acceptability**: Anything which is used as money must be easily accepted by all for exchange purpose.
2. **Divisibility**: Money should be easily divisible into smaller denominations to facilitate small transactions.
3. **Durability** : Money should also possess the characteristic of durability. Currency notes and coins are being used repeatedly and shall continue to do so for years together on account of durability. '
4. **Cognizability** : Money must be easily recognised. It should have certain distinct marks so as to avoid confusion by the receiving person.
5. **Portability** : It should be easy to carry from one place to another without any difficulty, expense and inconvenience, e.g. currency notes are easily portable.
6. **Homogeneity** : Money of a particular denomination must be homogeneous or identical in its features.
7. **Stability** : Money should have (1 stable monetary value. It serves as a measure of value to exchange goods and services. These goods can be sold and purchased in future as per requirements.

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### **QUESTION**

**State with reason whether you Agree or Disagree with the following statement:**



Many tasks are accomplished by money.

- Agree
- Disagree

### SOLUTION

Yes, I agree with this statement.

#### Reasons:

1. **Primary Functions of money** : Money performs primary functions as a medium of exchange and a measure of value.
2. **Secondary functions of money** : It performs secondary functions of standard of deferred payments, store of value and transfer of value.
3. **Contingent functions of money** : It also performs contingent functions of estimating and dividing national income, providing basis of credit, imparting liquidity to wealth and estimating macroeconomic variables.

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### QUESTION

**State with reason whether you Agree or Disagree with the following statement:**

Money can be sent anywhere through electric means.

- Agree
- Disagree

### SOLUTION

Yes, I agree with this statement.

#### Reasons:

1. **Plastic Money**: Plastic Money is easy to use in transactions due to advanced technology. Debit cards and credit cards are used as plastic money. Further innovation in smart transactions led to the introduction of electronic money.
2. **Electronic Money**: E-money or Electronic money is a monetary value that is stored and transferred electronically through a variety of means i.e. mobile phone, tablet. Smart card computer etc. It is backed by **Central Bank**.
3. **Digital wallets**: Electronic money used for purchases and transactions globally. Digital wallets are also a form of stored electronic money.

### EXERCISE 6 [PAGE 13]

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## QUESTION

**Answer the following question on the basis of the following information:**

Ganesh travelled to the mall by bus. He gave the conductor ₹ 10 coin for the ticket. He purchased many commodities from the mall.

At the billing counter, he gave his credit card for payment but the billing clerk informed him that only debit cards were accepted. Since Ganesh had forgotten his debit card at home, he offered to make payment by cash.

- 1) Identify the types of money used in the information
- 2) Explain any two of them.

## SOLUTION

1. The types of money used in the information are metallic money, plastic money, paper money

**2. The two types of money are :**

1. **Metallic money:** Money made out of metals such as gold, silver, copper, aluminum, nickel, etc. is called metallic money. It is comparatively less portable and more durable.
2. **Paper money:** Money made out of paper is called paper money. It is comparatively more portable and less durable.

