

Money and Credit

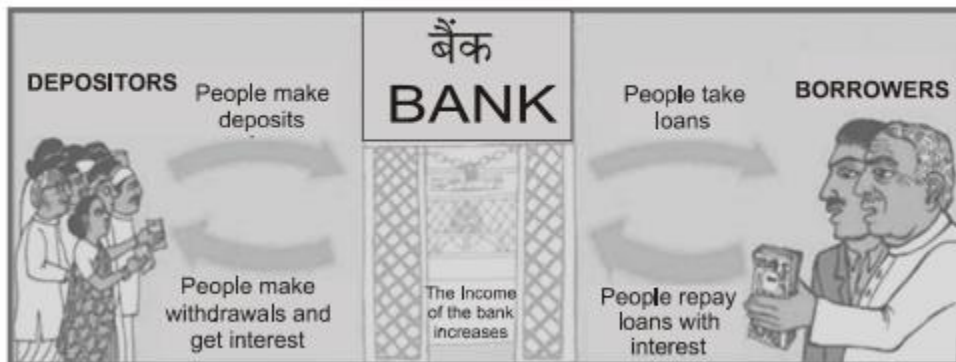
Previous Years' CBSE Board Questions

1. Why do lenders often require collateral before lending loan? Choose the most suitable option from the following. (2024)

- (a) To lower interest rates for borrowers.
- (b) To establish personal relations.
- (c) To increase their profit margins.
- (d) To mitigate the risk of loan default.

Answer. (d) To mitigate the risk of loan default.

2. Look at the given picture carefully and infer the income of the bank. (2024)



Choose the correct option from the following.

- (a) The difference between the amount deposited and borrowed by the bank to Reserve Bank of India.
- (b) The difference of amount of interest between what is charged from borrowers and what is paid to depositors.
- (c) The difference of interest rate between what is charged from borrowers and what is charged from depositor.
- (d) The difference between the amount deposited by the depositor and borrowed by the borrower.

Note: The following question is for Visually Impaired Candidates only in lieu of Q. No. 20.

Which one of the following supervise the functioning of formal sources of loan in India?

- (a) Reserve Bank of India
- (b) State Bank of India
- (c) National Development Council
- (d) National Finance Commission

Answer. (b) The difference of amount of interest between what is charged from borrowers and what is paid to depositors.

For visually impaired Students only

- (a) Reserve Bank of India

3. How is credit essential for economic activities? Explain with examples. (2024)

Answer. How is credit essential for economic activities? Explain with examples.

- i. Credit helps to set up Industries.
- ii. Credit helps to start businesses.
- iii. It helps to improve the standard of living of the people.
- iv. In rural areas credit helps in the development of agriculture by providing funds to farmers to buy seeds, fertilizers, expensive pesticides etc.
- v. It helps to generate employment.
- vi. Examples may be taken from the story of Salim or Students may provide examples from their day to day life.
- vii. Any other relevant point.

4. Read the following source carefully and answer the questions that follow : (2024)

LOCAL GOVERNMENT

This new system of local government is the largest experiment in democracy conducted anywhere in the world. There are now about 36 lakh elected representatives in the panchayats and municipalities etc., all over the country. This number is bigger than the population of many countries in the world. Constitutional status for local government has helped to deepen democracy in our country. It has also increased women's representation and voice in our democracy. At the same time, there are many difficulties. While elections are



held regularly and enthusiastically, gram sabhas are not held regularly. Most state governments have not transferred significant powers to the local governments. Nor have they given adequate resources. We are thus still a long way from realising the ideal of self-government.

4.1 Analyse the significance of the elected representatives in the Panchayats.

Answer. i. The Large number of elected representatives in panchayats and municipalities signifies the extensive scale of the democratic experiment in India.

ii. Large number of problems and issues are settled at the local level.

iii. Direct participation of people in the decision making and sociopolitical participation process.

iv. Any other relevant point Any one point to be analyzed.

4.2 In what way has the representation of women in democracy influenced by Constitutional status for local government?

Answer. i. It deepens democracy.

ii. Constitutional status for local government has led to increased representation and voice of women in democracy.

iii. It promotes inclusivity

iv. It promotes gender equality.

v. Any other relevant point.

4.3 What has been the impact of granting Constitutional status to local government on the democratic landscape of the country? Analyse any two impacts.

Answer. i. Granting constitutional status to local government is described as having deepened democracy in the country.

ii. It has also enhanced women's representation and women's participation in the democratic process.

iii. This constitutional recognition has played a role in empowering grassroots governance.

iv. It promotes inclusive decision – making.

v. Solution of local societal issues at local levels vi. Any other relevant point.

Money as a Medium of Exchange; Modern Forms of Money

MCQ



1. The exchange of goods with a commodity is known as: (2021C)
 - (a) Double coincidence of wants
 - (b) Local trade
 - (c) Domestic trade
 - (d) Foreign trade.
2. Which one of the following mediums of exchange is convenient? (2021C)
 - (a) Money
 - (b) Commodity
 - (c) Gold
 - (d) Silver
3. Which of the following authorities of India issues currency notes on behalf of the Central Government? (2021C)
 - (a) The State Bank of India
 - (b) The Reserve Bank of India
 - (c) The Allahabad Bank
 - (d) The Punjab National Bank

VSA (1/2 mark)

4. Why are transactions made in money? Explain. (Term-11, 2021-22C)
5. Why are demand deposits considered as money? (AI 2019)
6. How is 'double coincidence of wants' not appreciable in the contemporary scenario? (2019 C, Delhi 2017)
7. Why is money called a medium of exchange? (AI 2019)

OR

How does money act as medium of exchange? (2015)

8. How is money beneficial in transactions? (Foreign 2017)
9. Why one cannot refuse a payment made in rupees in India? (2016)
10. How does money eliminate the need for double coincidence? (2016)
11. What is barter system? (2015)
12. What is a cheque? (2015)



13. Who issues currency notes in India? (2015)

SAI (3 marks)

14. "The use of money spans a very large part of our everyday life". Support the statement. (2021 C)

OR

How is money used in every day life? Explain with examples. (2014)

15. How do demand deposits have the essential features of money? Explain. (2020)

16. How can money be used to easily exchange it for goods or services? Give examples to explain. (Delhi 2016)

17. How is money transferred from one bank account to another bank account? Explain with an example. (Foreign 2016)

18. Why is modern currency accepted as a medium of exchange without any use of its own? Find out the reason. (AI 2015)

19. Explain with examples, how people are involved with the banks? (2014)

LA (5 marks)

20. What are demand deposits? Explain any three features of it. (2016)

Loan Activities of Banks; Two Different Credit Situations; Terms of Credit

MCQ

21. Read the information given below and select the correct option.

Rohan has taken a loan of Rs.5 lakhs from the bank to purchase a house on 12% rate of interest. He has to submit papers of new house and salary record to the bank. What is this process called as? (2020 C)

- (a) Interest Rate
- (b) Collateral
- (c) Principal Amount
- (d) Installments

VSA (1/2 mark)



22. How does a bank work as a key component of the financial system?
Explain. painful. (Term-II, 2021-22)

23. Analyse the situation in which credit pushes the borrower into a situation from which recovery is (Term-11, 2021-22)

24. Krishna is working in a neighbouring field with very less wages. Expenses on sudden illnesses or functions in the family are also met through loans. The landowner charges an interest rate of 5 per cent per month. At present she owes the landowner 5,000.

Analyse the credit arrangements given above. (2020)

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

26. Why do banks maintain cash reserve? (2016)

SAI (3 marks)

27. Explain the role of banks with regard to money which they accept from the public. (2023)

28. Explain any three functions of the Reserve Bank of India. (2023, AI 2019)

29. Why do lenders ask for collateral while lending? Explain. (2020, Foreign 2014)

30. "The Reserve Bank of India supervises the functioning of formal sources of loans." Support the statement with examples. (2020)

31. Describe the bad effects of informal sources of credit on borrowers. (Delhi 2019)

32. Explain the three important terms of credit. (AI 2019)

33. Explain any three loan activities of banks in India. (AI 2017)

34. "Banks are efficient medium of exchange." Support the statement with arguments. (Delhi 2017)

35. Illustrate with examples the role of 'loan' in 'business'. (Foreign 2017)

LA (5 marks)



36. "Cheap and affordable credit is crucial for the country's development." Justify the statement.(2023)
37. Explain with an example the role of credit for development. (Term-11, 2021-22)
38. "Bank plays an important role in the economic development of the country". Support the statement with example. (2020)
39. "Credit sometimes pushes the borrower into a situation from which recovery is very painful". Support the statement with examples. (2020) U
40. Describe the vital and positive role of credit with examples. (2019, Delhi 2016)
41. How are deposits with the bank beneficial for individual as well as for the nation? Explain with examples. (2015)
42. Why is it necessary for banks and cooperatives to increase their lending in rural areas? Explain. (Foreign 2014)

Formal Sector Credit in India; Self-Help Groups for the Poor

MCQ

43. Which one of the following is a formal source of credit? (2023, Delhi 2014)
- (a) Relatives
 - (b) Traders
 - (c) Money-lenders
 - (d) Cooperative societies
44. Which one of the following refers to investment?
- (a) The money spent on religious ceremonies.
 - (b) The money spent on social customs.
 - (c) The money spent to buy assets such as land.
 - (d) The money spent on household goods. (AI 2014)

VSA (1/2 mark)

45. Read the following source and answer the questions that follow:

A House Loan

Megha has taken a loan of 25 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in



10 years in monthly installments. Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest.

(i) From which source of credit Megha has taken loan?

(ii) Explain the terms of credit given in the source. (Term-II, 2021-22)

46. Krishna is working in a neighboring field with very less wages. Expenses on sudden illnesses or functions in the family are also met through loans. The landowner charges an interest rate of 5 percent per month. At present she owes the landowner 5,000. Analyse the credit arrangements given above. (2020 C)

47. Give any two examples of informal sector of credit. (2018)

48. Prove with an argument that there is a great need to expand formal sources of credit in rural India. (2016)

49. Why is the supervision of the functioning of formal sources of loans necessary? (2016)

50. Why do farmers require credit? (2016)

SAI (3 marks)

51. Dhananjay is a government employee and belongs to a rich household, whereas Raju is a construction worker and comes from a poor rural household. Both are in need and wish to take loan. Create a list of argument explaining who between the two would successfully be able to arrange money from a formal source. Why? (Term-11, 2021-22 C, 2016)

52. Self-Help Groups are the building blocks of organisation of the rural poor. Suggest any three ways to make them popular for social issues. (2020 C)

53. Explain any three situations in which credit helps in the development of agriculturists. (2019 C)

54. Describe the importance of formal sources of credit in the economic development. (Delhi 2019)

55. Mention three points of difference between formal sector and informal sector loans. (2016)



56. How is the concept of Self Help Groups important for poor people? Give your view point. (Foreign 2016)

57. Poor households still depend on informal sources of credit". Support the statement with examples. (2016)

58. "The credit activities of the informal sector should be discouraged." Support the statement with arguments. (2016)

59. Formal credit meets only about half of the total credit needs of the rural people. Where does the other half come from? (2014)

LA (5 marks)

60. Justify the role of 'Self Help Groups' in the rural economy. (2023)

61. How are formal sources of credit different from informal sources? Explain with example. (Term-II, 2021-22)

62. "Self Help Groups' help borrowers to overcome the problem of lack of collateral." Examine the statement. (2020, Delhi 2017)

63. Review any three merits and any two demerits of 'Formal sector of credit' in India. (Foreign 2017)

64. How can the formal sector loans be made beneficial for poor farmers and workers? Suggest any five measures. (AI 2016)

CBSE Sample Questions

Loan Activities of Banks; Two Different Credit Situation; Terms of Credit

MCQ

1. Read the information given below and select the correct option. (2022-23)
Rohan has taken a loan of Rs. 5 lakhs from the bank to purchase a house on 12% rate of interest. He has to submit papers of new house and salary record to the bank. What is this process called as?



- (a) Interest Rate
- (b) Collateral
- (c) Principal Amount
- (d) Installments

2. Read the information given below and select the correct option. (2020-21)
Mohan is an agricultural labourer. There are several months in a year when he has no work and needs credit to meet his daily expenses. He depends upon his employer, the landowner for credit who charges an interest rate of 5 percent per month. Mohan repays the money by working physically for the landowner on his farmland. Over the years his debit will

- (a) increase - because of increasing interest and non-payment of monthly amount
- (b) remain constant - as he is working for the employer but is repaying less
- (c) reduce - as amount equivalent to his salary is being counted as monthly repayment
- (d) be totally repaid as he is repaying the debt in the form of physical labour

OR

Most of the agricultural labourers like Mohan depend upon loans from informal sector. Which of the following statements about this sector is correct? (2020-21)

- (a) There are govt. bodies to supervise informal sector.
- (b) Money lenders ask for a reasonable rate of interest.
- (c) Cost of informal loans to the borrower is quite high.
- (d) Money lenders use fair means to get their money back.

3. Which one of the following options describe 'collateral'? (2020-21)

- (a) Double coincidence of wants
- (b) Certain products for barter
- (c) Trade in barter
- (d) Asset as guarantee for loan

Formal sector credit in India; self-help group for the poor

SAI (3 marks)

4. Imagine yourself to be XYZ, a member of a women Self-Help Group. Analyse the ways through which your group provides loan to the members. (2020-21)



LA (5 marks)

5. Explain the role of Self-Help Groups (SHGs) in the rural society. (2022-23)
6. Explain the significance of the Reserve Bank of India in the Indian economy.

ANSWERS

Previous Years' CBSE Board Questions

1. (a): Double coincidence of wants
2. (a): Money
3. (b): The Reserve Bank of India
4. A person holding money can easily exchange it for any commodity or service that he or she might want. Thus, everyone prefers to receive payments in money and then exchange the money for things that they want.
5. Demand deposits are considered as money, because they can be withdrawn when required and the money withdrawn can be used for making payments. So, they are also considered as money in the modern economy.
6. For double coincidence of wants to work out, an individual must require what the other person is willing to give away and vice-versa. If this situation is not reached exchange of goods does not happen. This problem is eliminated by the use of money.
7. Money acts as an intermediate in the transaction and the exchange process. We can buy things with the help of money.
8. Money is very beneficial in transactions as it eliminates the inconvenience of double coincidence of wants. Thus, it has replaced the barter system. Now, people can buy whatever they want.
9. A payment in rupees cannot be refused because it is accepted as the medium of exchange in India. It is authorised by the Government of India.
10. Money eliminate the need of double coincidence by providing the crucial intermediate step. For example, it is not necessary for a shoe maker to look for a farmer who will buy shoes made by him and at the same time, sell rice to



him. All he has to do is to find a buyer for his shoes, who will pay him money for them. With this money, he can purchase rice or any other commodity available in the market.

11. Barter system is an old way of exchanging goods between two parties to satisfy their needs. In this system goods were exchanged without the use of money.

12. A cheque is an instruction, written on paper, to the bank to pay a specific amount as mentioned, to the person whose name the cheque bears.

13. Reserve Bank of India (RBI)

14. In everyday lives, we use money to fulfill our requirement in different ways:

(i) To buy goods and services like in market, money can be used to buy clothes, vegetables etc.

(ii) To deposit in banks so that money can be saved and used for future use. For example: If a labourer deposits his monthly salary in his bank account, then, he can use it in installments during the entire month.

(iii) As a store value. For instance, we cannot store perishable goods like milk, grain etc. to exchange; but we can keep money for future use.

15. Demand deposits considered as money:

(i) The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash. Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.

(ii) Banks accept the deposits and also pay an interest rate on the deposits.

(iii) In this way, people's money is safe with the banks and it earns an interest.

16. Money acts as a medium of exchange itself for goods and services. A person holding money can easily exchange it for any commodity or service that he or she might want. Everyone prefers to receive payments in money and exchange the money for things they want. For example: A shoemaker wants to sell shoes in the market and buy wheat. The shoemaker will first exchange shoes for money and then exchange the money for wheat. If the shoemaker had to directly exchange shoes for wheat without the use of money, he would have to look for a wheat growing farmer who not only wants to sell wheat, but



also wants to buy the shoe in exchange. Both the parties have to agree to sell and buy each others commodities. This process is very difficult, time consuming and unhealthy.

17. If a person has to make a payment to his or her friend and writes a cheque for a specific amount, this means that the person instructs his bank to pay this amount to his friend. His friend takes this cheque and deposits it in his account in the bank. This said amount is transferred from one bank account to another bank account.

18. Modern currency is accepted as a medium of exchange without any use of its own because

- (i) Modern currency is authorised by the government of a country.
- (ii) In India, the Reserve Bank of India issues all currency notes on behalf of Central Government.
- (iii) No other individual or organisation is allowed to issue currency.
- (iv) The law legalises the use of rupee as a medium or payment that cannot be refused in setting transactions in India.
- (v) No individual in India can legally refuse payment made in rupees.

19. We know that banks accept the deposits from the people who have surplus money and also pay an interest on the deposits.

But banks keep only a small portion (15 per cent in India this amount keeps changing) of their deposits as cash with themselves. This is kept as a provision to pay the depositors who might come to withdraw money from their account in the bank on any day. They use the major portion of the deposits to extend loans to those who need money. In this way, banks mediate between those who have surplus money and those who need money.

20. People save their money in banks by opening an account. The deposits in the bank accounts can be withdrawn on demand, so these deposits are called demand deposits.

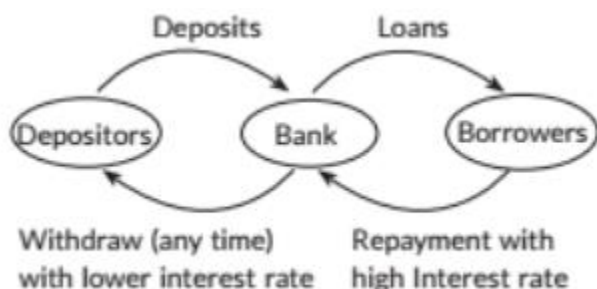
- (i) Banks accept the deposits and also pay an interest on the deposits. In this way people's money is safe with the banks and it earns interest.
- (ii) The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash. Since, demand deposits, can be used as a means of payment, along with currency, they constitute money in the modern economy.



(iii) The depositor can withdraw the money as and when he/she needs the money.

21. (b): Collateral

22. Banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers). People need small amount of money for their day-to-day needs and deposit the surplus amount in the bank. Bank accepts the deposit and also pay an amount of interest on the deposits. In this way people's money is safe and earns an amount as an interest. Bank use the major portion of the deposits to meet the loan requirements of the people.



23.

1. Debt trap pushes the borrower into a situation from which recovery is painful. It is characterised by non-repayment of credit, which leads the borrower into this vicious cycle.
 2. It can be caused by :-
 - (i) crop failure
 - (ii) use of loan for non-productive purposes.
- Therefore, it is crucial for the borrower to analyse the support available in case of loss, before taking a loan.

[Topper's Answer, 2022]

24. Credit arrangement- Informal sources of credit / No intervention of government in controlling the credit activities carried out by informal sources.

25. When we deposit our money in the bank we get an interest on it. However the bank uses that money to give loan to people. The bank charges an interest on its loan at a higher rate than what is paid to the depositors. Thus, the banks earn money from the deposits.

26. Banks maintain cash reserve to ensure smooth daily withdrawal by depositors.

27. Bank plays an important role in regarding the money accept from public.

(i) They keep money of the public in its safe custody.

(ii) They give interest on the deposited money to the public.

(iii) Bank use the major portion of deposits to extend loans. These loans are then recovered with an interest.

(iv) It is easy for individuals to get credit who have savings and current account in the banks.

28. The Reserve Bank of India has many important roles that affects the common public.

(a) RBI monitors the balance kept by the bank for day to day transactions.

(b) RBI monitors the banking activity, particularly the loan giving activity of the banks. It ensures that the banks give loans to priority sector like agriculture and not just to profit making sectors.

(c) The RBI undertakes the responsibility of controlling credit created by the commercial banks. RBI uses quantitative and qualitative techniques to control and regulate the credit flow. This includes interest rates and percentage of loans to a sector.

(d) The RBI gives guidelines to the bank about setting up the terms of credit that the bank may decide upon for the borrowers.

29. Lenders ask for collateral while lending:

(i) It works as guarantee to a lender until the loan is repaid.

(ii) If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

(iii) Reduction of exposure in order to do more business with each other when credit limits are under pressure.

30. Reserve Bank of India (RBI) supervised the bank in the following ways:

(i) It monitor the balance kept by banks for day-to-day transactions

(ii) It checks that the banks give loans not just to profit-making business and



traders but also to small borrowers.

(iii) Periodically, banks have to give details about lenders, borrowers and interest rate to RBI. It is necessary for securing public welfare. It avoids the banks to run the business with profit motive only. It also keeps a check on interest rate of credit facilities provided by bank. RBI makes sure that the loans from the banks are affordable and cheap.

31. The informal sector consists of money lenders, traders, employers, friends, relatives, merchants and landlords. There is no organisation which supervises the credit activities of lenders in the informal sector.

(i) The informal lenders usually charge a very high rate of interest. A higher cost of borrowing is often detrimental to the borrower. It usually results in a debt trap for the borrower. The borrower is seldom able to escape the never ending cycle of loan repayment.

(ii) Most loans from informal lenders carry a very high interest rate and have other stringent conditions. They do little to increase the income of the borrowers.

(iii) It has been observed that the loan recovery mechanics in the informal sector is particularly harsh in cases of loan repayment default. There have been cases of selling of properties at throw away prices and total loss of belongings and even suicides.

32. The three important terms of credit are;

(i) Interest Rate - It is interest that the borrower pays to the bank. An interest component is added to the principal that the borrower pays to the bank as loan payment installment.

(ii) Collateral: An asset which is owned by the borrower and is used as a guarantee to a lender until the loan is repaid is called the collateral. Land, house, vehicle, livestock, deposits with banks, insurance policy, gold, etc., are examples of assets that can be kept as collateral. If the borrower fails to repay the loan, the lender reserves the right to sell the collateral to obtain payment.

(iii) Documentation: The transaction between the lender and the borrower are put on record by documenting it. It includes rate of interest, tenure, collateral and mode of repayment. The terms of credit vary from one loan agreement to another and also on the nature of the lender and the borrower.



33. (i) Bank provided loans for various economic activities to people or organisations.

(ii) Banks keep only a small proportion of the deposits with them as cash, to meet daily payments. The deposits are used to meet the loan requirement of the people.

(iii) Banks intermediates between those who have surplus funds and those who are in need of these funds. Bank offer less interest on deposits than what they charge on loans.

34. People deposit their money with banks by opening a bank account. Banks keep the money safe and provides interest on the deposited amount. The deposited money can be withdrawn from banks as and when required on demand. Banks also facilitate easy transfer of money through cheques, demand drafts and internet banking from one account to another in the same or any other bank. Banks keep only 15% of their total cash deposits to meet the everyday withdrawal demands of their customers. Major portion of the remaining deposits are used to give loans to people at specific rate of interest. Thus, we see that money is very efficiently exchanged between various people.

35. Loan or credit plays a crucial role in business. By sanctioning loans to developing industries and trade, banks provide them with the necessary aid for functioning, developing and expanding business. This leads to increase in the production, profits and employment. For this reason, it is important that the formal sector gives out more loans so that borrowers are not duped by moneylenders, and can ultimately contribute to national development.

36. Cheap and affordable credit is crucial for the country's development due to the following factors:

(i) More lending would lead to higher incomes and encourage people to invest in agriculture, engage in business and set up small scale industries.

(ii) Cheap credit means more income would be left with the borrower to reinvest rather than return as interest. This leads to acceleration of economic activity.

(iii) Cheap credit would also allow weaker sections of society to enter formal sector of lending and rid them of exploitation at the hands of informal moneylenders.

(iv) Affordable credit would also end the cycle of debt trap and lead to



sustainable economic activity that would allow borrowers to invest in better technology to make their business more competitive.

37. 'Credit' refers to an agreement in which the lender supplies the borrowers with money, goods or services in return for the promise of future payment.

Credit plays vital role for development in different ways as:

- (i) Credit helps people from all walks of life in setting up their business, increase their income and support their families.
- (ii) To some people loan helps a lot in constructing their houses and get relief from monthly rent, to others it helps a lot in raising their standards of living.
- (iii) Example of Salim: The credit helps him and he is able to meet the ongoing expenses of production, complete production on time and thereby increase his earning.

38. Banks play an important role in the economic development of the country.

- (i) Capital formation Banks offer very attractive schemes to attract the people to save their money with them and organised money market.
- (ii) They mobilize the small savings of the people through their branches and make it available for productive purposes.
- (iii) Credit creation leads to increased production, employment and caused faster economic development.
- (iv) The banks help in the development of different type of industries by extending loans to concern persons.
- (v) It ensures full utilisation of resources.

39. (i) In rural areas, the main demand for credit is for crop production. Crop production involves considerable costs on seeds, fertilisers, pesticides, water, electricity, repair of equipment, etc.

- (ii) There is a minimum stretch of three to four months between the time when the farmers buy these inputs and when they sell the crop.
- (iii) Farmers usually take crop loans at the beginning of the season and repay the loan after harvest.
- (iv) Repayment of the loan is crucially dependent on the income from farming.
- (v) Example of credit which is painful for a borrower : A farmer picks up the loan from a money lender to meet the expenses of cultivation. But unfortunately crops hit by the pests and fails. So, he is unable to repay the loan and debt grows larger with interest. Next year, he picks up a fresh loan and is able to have a normal crop that year. But earnings are not enough to pay the



earlier loan. He can repay the loan, only after selling a part of the land. So we can say that "Credit sometimes pushes the borrower into a situation from which recovery is very painful".

40. 'Credit' refers to an agreement in which the lender supplies the borrower with money to buy, goods or services in return for the promise of future payment. Credit plays a vital and positive role as:

- (i) Credit helps people from all walks of life in setting up their business, increases their income and support their families.
- (ii) To some people loan helps in constructing their houses and get relief from monthly rent.
- (iii) To other it helps in raising their living standards.
- (iv) Example: Sheela has joined a job. She has taken a loan to buy a scooty that she can attend office conveniently and build a career. Without the loan she would have to travel in bus which takes more time. Thus she would not be able to attend evening classes.

41. Bank offers very attractive schemes to attract the people to save their money with them and organise money market The deposits with banks are beneficial for individuals as well as to the nation in the following ways:

- (i) Bank accept deposit and also pay an amount as interest and in this way people earn money.
- (ii) People's money is safe with banks.
- (iii) It is easy for individuals to get credit who have savings and current account in the banks.
- (iv) Poor people who are engaged in production need credit.
- (v) Credit provided by the banks for government projects help in development of the nation.
- (vi) Bank provide loans for the promotion of international trade.
- (vii) Development of infrastructure is undertaken with the loans provided by the banks.

42. There is a necessity for the banks and cooperative societies to increase their lending in rural areas due to the following reasons:

- (i) It reduces dependence on informal sources of credit.
- (ii) Banks will provide more loan facilities to rural households.
- (iii) It will save rural people from exploitation.



(iv) The poor can benefit from the cheaper loans by improving their economic condition.

(v) The increased lending facilities will improve the livelihood of the people in the rural areas.

43. (d): Cooperative societies

44. (c): The money spent to buy assets such as land.

45. (1) Formal source

(ii) Terms of credit given in the source are

Document required - Salary slip and employment record.

Interest rate - 2% per annum

Mode of repayment - Monthly instalment

Collateral - New house papers

46. Informal credit.

47. Moneylenders, traders, employees, relatives and friends, etc.

48. The formal source of credit needs to be expanded in rural sector because then only the rural poor will get credit at reasonable rate and the credit will not be proved to be a liability.

49. The supervision of the functioning of the formal sources of credit is necessary because the banks should not only provide loans to rich sections of society but also to poor people. Also, the banks should follow the right procedures of borrowing and lending money as stipulated by the RBI.

50. Farmers require credit to pay for agricultural inputs such as seeds, fertilizers, pesticides, etc.

51. Dhananjay will be able to get loan from a formal source.

Arguments:

Banks are not present everywhere in rural India. Even when they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources. Bank loans require proper documents and collateral.

Absence of collateral is one of the major reasons which prevent the poor from getting bank loans. Informal lenders such as moneylenders, on the other hand, know the borrowers personally and hence, are often willing to give a loan without collateral.

52. Ways to make SHGs popular for social issues:

- (i) Government should make proper provisions to provide funding to SHGs for various social programmes.
- (ii) SHGs members can resolve families internal issues like domestic violence faced by women and providing the financial assistance for marriages.
- (iii) SHGs can be given separate fund for pregnant women's health, which provide can proper diet and medical requirement.

53. Role of credit in development of agriculturists: (i) The gestation period between sowing to selling agricultural produce is very long. In such situation credit is necessary.

- (ii) Indian farmer require credit to meet their short term needs like purchasing seeds, fertilisers; paying wages to hire workers etc.
- (iii) For big farmers credit is required for buying harvest machines etc.

54. The formal source of credit comprises of banks and cooperative societies. The Reserve Bank of India supervises the functioning of formal sources of loans.

- (i) Even though collateral and paper work is needed to secure loan from banks the interest rates here are lesser than informal sources.
- (ii) The formal sources of credit are part of the greater national economy. Hence even small borrowers should try to avail this facility and not go for informal sources of borrowing. The Self Help Groups (SHG) have been really of great help for the rural poor.
- (iii) The role of formal sources of credit has been very great particularly for financing large developmental projects and various business projects in the private sector and the public sector.

55. Formal sector loans:

- (i) Loans from bank and cooperatives need collateral.
- (ii) Under supervision of the Reserve Bank of India.
- (iii) Reasonable rates of interest. Informal sector loans:
 - (i) Loans from money lenders, relatives, friends, traders, etc., does not need collateral.
 - (ii) No supervision of any institution.
 - (iii) Very high rates of interest.



56. Self Help Groups are known as SHGs:

- (i) These are mainly created by the poor, often females of rural area for their own benefits.
- (ii) In this all members deposit their monthly savings to the leader.
- (iii) This creates self employment for the members.
- (iv) If any member needs money for domestic work such as renovation of house, buying fertilizers or agriculture equipment he/she can borrow it from the group.
- (v) Members can get timely loan at reasonable interest and without any collateral and documentation. It operates on mutual trust.

57. (i) Banks are not present everywhere in rural India, whereas informal sources are easily available in all everywhere.

- (ii) Getting a loan from a bank is difficult for poor people than taking a loan from the informal resources, because bank loans require proper documents and collaterals.
- (iii) Money lenders provide loan to the poor people without any collateral.
- (iv) Formal sources provide loan only for productive purpose, whereas the informal sources provide credit for productive and non-productive purposes.
- (v) Other informal sources of credit are friend and relatives, or traders and landlords, who know the borrowers personally and therefore, do not demand collateral.

58. The credit activities of the informal sector should be discouraged because:

- (i) 85% of loans taken by the poor household in the urban areas are from informal sources.
- (ii) Informal lenders charge very high interest on their loans.
- (iii) There are no boundaries and restrictions.
- (iv) Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loans.
- (v) In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower.
- (vi) This could lead to increasing debt and debt trap, therefore the credit activities of the informal sector should be discouraged.

59. (i) The formal sources of credit in India still meets only about half of the total credit needs of the rural people. The other half comes from the informal sources such as money lenders, friends, relatives etc.



- (ii) Compared to formal lenders, most of the informal lenders charge much higher interest rates on loans like 3% to 5% per month, i.e., 36% a year.
- (iii) Besides the high interest rate, informal lenders impose various other tough conditions. For example, they make the farmers promise to sell the crop to him at a low price. There is no such condition in formal sector.
- (iv) Loans taken by poor people from informal lenders sometimes, lead them to debt trap because of high interest rate.

60. (i) SHGs have emerged as building blocks of the rural poor as it is the group as a whole which is responsible of the repayment of the loan. In case of non-repayment, it is taken up in a serious manner by the group members.

(ii) The SHGs are organisations of the rural poor people especially women. They provide small loans on reasonable rates.

(iii) The members of SHGs pool their savings and take loans at nominal rates of interests.

(iv) This creates self employment opportunities for the members particularly rural poor women.

(v) The SHGs help poor borrowers to overcome the problem of lack of collateral.



		FORMAL SOURCES		INFORMAL SOURCES
SUPERVISOR	1	supervised by RBI (Reserve Bank of India)	1	unsupervised
PREVALENCE	2	urban regions	2	rural regions
RATE OF INTEREST	3	low	3	high
RECORD-KEEPING	4	required	4	not necessary
SERVICE CONDITIONS	5	good	5	bad; borrowers are often harassed
COLLATERAL	6	required	6	usually not required
EXAMPLES	7	banks, cooperatives	7	moneylenders, relatives, traders

[Topper's Answer, 2022]

62. Self-Help Groups (SHGs) have helped borrowers to borrow money without collateral in the following ways:

- (i) Self help groups have organized rural poor more so women in collecting their money and in extending loans to its members.
 - (ii) SHG charge less rate of interest as compared with any other forms of rural banking or even those charged by moneylenders.
 - (iii) These groups gradually can seek loans from bank so as to create employment opportunities for its members.
 - (iv) Banks have been extending loans to these groups to meet their needs like buying fertilizers, seeds, raw materials, etc.
 - (v) These SHG have emerged as building blocks of the rural poor as it is the group as a whole which is responsible of the repayment of the loan. In case, of non- repayment it is taken up in a serious manner by the group members.
- Thus, because of this, banks offer money to women organised in these groups without any collateral. Similarly, members of these groups can get loans when required which is repayable in small installments.

63. Banks and cooperatives are the formal sources of credit. Advantages:

(i) These institutions are regulated by the Reserve Bank of India. Their rates of interest for loans are controlled. The rates and terms are fixed.

(ii) There is no exploitation by the lenders.

(iii) Everyone can take a loan that includes big businessmen as well as the small cultivators or borrowers.

(iv) The cost of borrowing is usually less. Disadvantages:

(i) The procedure to get the loan is time consuming.

(ii) They require collateral security.

64. Formal sector loans can be made beneficial for poor farmers and workers in the following ways:

(i) Create awareness to farmers about formal sector loans.

(ii) Process of providing loans should be made easier.

(iii) It should be simple, fast and timely.

(iv) More number of Nationalised Bank/cooperative banks should be opened in rural sector.

(v) Banks and cooperatives should increase facility of providing loans so that dependence on informal sources of credit reduces.

(vi) While formal sector loans need to expand, it is also necessary that everyone receives these loans.

CBSE Sample Questions

1. (b): This process is called as collateral. (1)

2. (a): Increase because of increasing interest and non-payment of monthly amount. (1)

OR

(c): Cost of Informal loans to the borrower is quite high (1)

3. (d): Asset as guarantee for loan (1)

4. (i) Self Help Groups pool their savings.

(ii) A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly.

(iii) Saving per member varies from Rs. 25 to Rs. 100 or more, depending on the ability of the people to save.



- (iv) Members can take small loans from the group itself to meet their needs.
- (v) The group charges interest on these loans but this is still less than what the moneylender charges.
- (vi) After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank. Any three points to be explained. (3 × 1)

5. Self-Help Groups (SHGs) have helped borrowers to borrow money without collateral in the following ways:

- (i) Self Help Groups have organised rural poor especially women in collecting their money and in extending loans to its members.
- (ii) SHG charge less rate of interest as compared with any other forms of rural banking or even those charged by moneylenders.
- (iii) These groups gradually can seek loans from bank so as to create employment opportunities for its members.
- (iv) These SHGs have emerged as building blocks of the rural poor as it is the group as a whole which is responsible of the repayment of the loan. In case of non-repayment, it is taken up in a serious manner by the group members.
- (v) Banks offer money to women organised in these groups without any collateral. Similarly, members of these groups can get loans when required which is repayable in small installments. (5 × 1)

6. The Reserve Bank of India has many important roles that affects the common public.

- (a) RBI monitors the balance kept by the bank for day-to- day transactions.
- (b) RBI monitors the banking activity, particularly the loan giving activity of the banks. It ensures that the banks give loans to priority sector like agriculture and not just to profit making sectors.
- (c) The RBI undertakes the responsibility of controlling credit created by the commercial banks.
- (d) RBI uses quantitative and qualitative techniques to control and regulate the credit flow. This includes interest rates and percentage of loans to a sector.
- (e) The RBI gives guidelines to the bank about setting up the terms of credit that the bank may decide for the borrowers. (5 × 1)

