

## Money and credit (practice-2)

### MCQs :

- 1. A person can withdraw money from a bank by issuing a cheque. What is a cheque?**
  - (a) Loan taken by the bank.
  - (b) Loan taken by the depositor from the bank.
  - (c) Paper instructing the bank to pay a specific amount.
  - (d) Paper valid to withdraw money
- 2. Banks give out loans and charge ..... on the loan amount from the borrower.**
  - (a) rent
  - (b) wages
  - (c) interest
  - (d) money
- 3. All the banks act as mediator between -----and -----.**
  - a. rural people, urban people
  - b. literates, illiterates
  - c. people, government
  - d. depositors, borrowers
- 4. Which of the following is not a feature of Self Help Groups (SHGs)?**
  - a. It consists of 15-20 members or more.
  - b. Here members pool their savings which acts as collateral.
  - c. Loans are given at nominal rate of interest.
  - d. It is an informal source of credit.
- 5. Organised credit is also called**
  - a. informal credit
  - b. formal credit
  - c. cooperative credit
  - d. none of these
- 6. People are involved in a variety of occupations. Match the following with the appropriate reason people might borrow money for:**

A	B
a) Auto rickshaw driver	i) To buy a house
b) A businessman whose factory has been closed	ii) To buy a new shop for him
c) Small trader	iii) To revive his business
d) Govt. servant	iv) To buy a new vehicle.
- 7. Which one of the following is not a formal source of credit?**

- (a) Commercial Banks
- (b) State Bank of India
- (c) Employers
- (d) Co-operatives

**8. All the banks act as mediator between and .....**

- a. rural people, urban people
- b. literates, illiterates
- c. people, government
- d. depositors, borrowers

**9. Which one of the following is the appropriate meaning of collateral?**

- (a) It is the sum total of money borrowed from banks.
- (b) The amount borrowed from friends.
- (c) It is an asset of the borrower used as guarantee to a lender.
- (d) The amount invested in a business.

**10. Which of the following is not an advantage of self-help group?**

- (a) Grant of timely loans
- (b) Reasonable interests
- (c) A platform to discuss various issues
- (d) Does not help women to become self-reliant.

**11. Which one of the following is a major reason that prevents the poor from getting loans from the banks?**

- (a) Lack of capital
- (b) Not affordable due to high rate of interest
- (c) Absence of collateral security
- (d) Absence of mediators

**12. Which one of the following is the important characteristic of modern form of currency?**

- (a) It is made from precious metal
- (b) It is made from thing of everyday use
- (c) It is authorised by the commercial banks
- (d) It is authorised by the Government of the country

**13. Which one of the following is not included in the terms of credit?**

- (a) Rate of Interest
- (b) Mode of payment
- (c) Rate of saving
- (d) Collateral

**14. Banks use the major portion of the deposit to:**

- (a) Keep reserve so that people may withdraw
- (b) Meet their routine expenses
- (c) Extend loans
- (d) Meet renovation of the bank

**15. At present which form of money is increasingly used apart from paper money?**

- (a) Commodity money
- (b) Metallic money
- (c) Plastic money
- (d) All the above

**16. What is the main source of income of a bank?**

- (a) Bank charges that the depositors pay for; keeping their money safe is the main ; source of the bank's income.
- (b) The difference between what is charged from the borrowers and paid to the depositors is the main source of bank's income.
- (c) Banks earn huge amounts of money by investing the money of the depositors in various company shares.
- (d) The Government of India gives huge amounts of money to the banks to help their smooth functioning.

#### **IV. ASSERTION/REASON TYPE QUESTIONS:**

**DIRECTION :** Mark the option which is most suitable :

- (a) If both assertion and reason are true, and reason is the correct explanation of assertion.
- (b) If both assertion and reason are true, but reason is not the correct explanation of assertion.
- (c) If assertion is true, but reason is false.
- (d) If both assertion and reason are false.

**1. Assertion :** The modern currency is used as a medium of exchange; however, it does not have a use of its own.

**Reason :** Modern currency is easy to carry

**2. Assertion :** In India, no individual can refuse to accept a payment made in rupees.

**Reason :** Rupee is the legal tender in India.

**3. Assertion :** The facility of demand deposits makes it possible to settle payments without the use of cash.

**Reason :** Demand deposits are paper orders which make it possible to transfer money from one person's account to another person's account.

**4. Assertion :** Banks keep only a small proportion of their deposits as cash with themselves.

**Reason :** Banks in India these days hold about 15 per cent of their deposits as cash.

**5. Assertion :** Banks charge a higher interest rate on loans than what they offer on deposits.

**Reason :** The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

**6. Assertion :** Rohan took credit in the form of advance payment from a buyer and he delivered the goods to the buyer on time and also earned profit. The credit made Rohan better off in this situation.

**Reason :** Credit can never push a person into a debt trap.

**7. Assertion :** Credit would be useful or not depends on the risk involved in a situation.

**Reason :** The chance of benefitting from credit is highest in agriculture sector.

#### **V. CASE STUDY Questions:**

1. Ramu is a potter making pots, wants to exchange pots for wheat.

Luckily, he meets a farmer who has wheat and is willing to exchange it for the pots. What is this situation known as?

- i. Incidence of wants
- ii. Double coincidence of wants
- iii. Barter system of wants
- iv. None of the above

2. Sam is a merchant. He has some surplus money, he opens a bank account and deposits in it. Whenever he needs money, he can go to his bank and withdraw from there. This kind of deposit with the banks are known as:

- (a) demand deposit
- (b) term deposit
- (c) fixed deposit
- (d) surplus deposit

3. Thomas and Selvan are small farmers. Thomas has taken credit @ 1.5% per month on < 20000 from a trader while Selvan has taken credit at 8% per annum from bank on the same amount. Who is better off?

- (a) Thomas is better because he has to do no paperwork.
- (b) Selvan is better because his interest payment is less.
- (c) Thomas is better because he has not paid any collateral.
- (d) Both Thomas and Selvan are equal so no one is better off.

4. Nakul is a trader. He provides farm inputs on credit on the condition

that farmers will sell their crop products to him at \_\_\_\_\_ prices so that he could sell them at----- prices in the market.

- (a) high, medium      (b) low, high  
(c) medium, high      (d) high, low

**5.** The Reserve Bank of India supervises the functioning of formal sources of loans. For instance, we have seen that the banks maintain a minimum cash balance out of the deposits they receive. The RBI monitors the banks in actually maintaining cash balance. Similarly, the RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers, etc. Periodically, banks have to submit information to the RBI on how much they are lending, to who, at what interest rate, etc. There is no organisation which supervises the credit activities of lenders in the informal sector. They can lend at whatever interest rate they choose. There is no one to stop them from using unfair means to get their money back.

**1). Fill in the blanks\_ RBI gives loans to-----**

1. To established cultivators, small scale industries, to small borrowers, etc.
2. To small cultivators, small scale industries, to small borrowers, etc.
3. To small cultivators, large scale industries, to small borrowers, etc.
4. Only to small scale industries

**2). Which organisation supervises the functioning of formal sources of loans in India?**

1. The Reserve Bank of India supervises the functioning of formal sources of loans.
2. The State Bank of India supervises the functioning of formal sources of loans.
- 3 The Indian Bank of India supervises the functioning of formal sources of loans.
- 4 The Union Bank of India supervises the functioning of formal sources of loans.

**3). Who supervises the credit activities of lenders in the informal sector?**

- a. There are around three organisation which supervises the credit activities of lenders in the informal sector.
- b. There are two organisation which supervises the credit activities of lenders in the informal sector.

c. There is no organisation which supervises the credit activities of lenders in the informal sector.

d. There are about four organisation which supervises the credit activities of lenders in the informal sector.

#### **4). Fill in the blanks**

There is no organisation which supervises the credit activities of lenders in the-----

- Informal sector
- Primary sector
- Secondary sector
- Tertiary sector

### **6. Source A Currency**

Modern forms of money include currency-paper notes and coins. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. And unlike grain and cattle, they are neither of everyday use. The modern currency is without any use of its own. Then, why is it accepted as a medium of exchange? It is accepted as a medium of exchange because the currency is authorised by the government as it legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India. No individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange in the country. In India, the Reserve Bank of India issues currency notes on behalf of the central government. As per Indian law, no other individual or organisation is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in selling transactions in India. No individual in India can legally refuse a payment made in rupees. Hence, the rupee is widely accepted as a medium of exchange.

#### **1. Who issues the currency notes in India? Which is our currency used nowadays?**

(i) The State Bank of India issues currency notes on behalf of the district government. Nowadays paper notes and coins are used as currency in our country.

(ii) The Reserve Bank of India issues currency notes on behalf of the state government. Nowadays paper notes and coins are used as currency in our country.

(iii) The Reserve Bank of India issues currency notes on behalf of the Central government. Nowadays paper notes and coins are used as currency in our country.

(iv) The Rural Bank of India issues currency notes on behalf of the Central government. Nowadays only coins are used as currency in

our country.

**2. What is accepted as the medium of exchange in India?**

- (i) Dollar is accepted as the medium of exchange in India.
- (ii) Rupee is accepted as the medium of exchange in India.
- (iii) Euro is accepted as the medium of exchange in India.
- (iv) Dinar is accepted as the medium of exchange in India.

**3. Fill in the blanks:**

The Reserve Bank of India issues currency notes on behalf of the

-----.

- (i) Central government
- (ii) District government
- (iii) State government
- (iv) Village government

**4. What does the Indian Law say about the currency?**

- (i) As per Indian law, no other individual or organisation is allowed to issue bills. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.
- (ii) As per Indian law, no other individual or organisation is allowed to issue currency. Moreover, the law legalise the use of dollar as a medium of payment that cannot be refused in settling transactions in India.
- (iii) As per Indian law, no other individual or organisation is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.
- (iv) As per Indian law, no other individual, except for two organisations, is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

**Very Short Answer Questions****2 MARKS EACH**

1. State the role of Reserve Bank of India.
2. Which are the modern forms of money?
3. How do the demand deposits share the essential features of money ?
4. What is debt-trap ?
5. Which authority does supervise the functioning of formal sources of loans and how ?
6. What is meaning of Barter system ? Why is double coincidence of wants is an essential feature of a Barter system ?
7. Why is modern currency accepted as a medium of exchange without any use of its own ? Point out the reasons.
8. Why should credit at reasonable rates from the banks and cooperatives be available for all ?
9. Why is it necessary for the banks and cooperative societies to increase their lending facilities in rural areas?
10. How do banks play an important role in the economy of India?

**VI. SHORT ANSWER questions****3 MARKS**

1. What do you mean by 'Barter system'?
2. What is meant by double coincidence of wants? What is its inherent problem?
3. What is money? Why is modern money/ currency accepted as a medium of exchange?
4. Why do banks ask for collateral while giving credit to a borrower?
5. What comprises 'terms of credit'?
6. "Supervision of the functioning of formal sources of loans is necessary". Why?
7. "There is a great need to expand formal sources of credit in rural India." Examine the statement.
8. Why are most of the poor households deprived from the formal sector of loans?
9. What do you understand by demand deposits?
10. "Cheap and affordable credit is essential for poor households both in rural and urban areas." In the light of the above statement explain the social and economic values attached to it.

OR

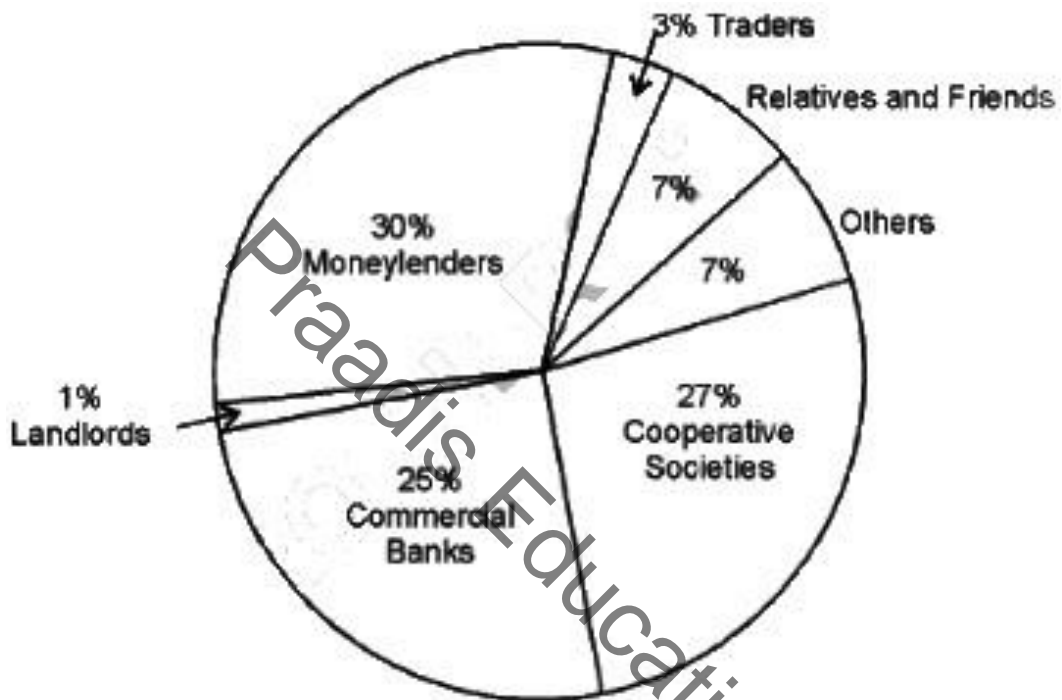


“Cheap and affordable credit is crucial for the country’s development.”  
Assess the statement.

OR

‘Credit has its own unique role for development’. Justify the statement with arguments.

- Why is it necessary for the banks and cooperative societies to increase their lending facilities in rural areas? Explain.
- Why do we need to expand formal sources of credit in India?
- Study the diagram given below and answer the THREE questions that follows:



Sources of credit for Rural Households in India in 2003.

- Which are the two major sources of credit for rural households in India?
- Which one of them is the most dominant source of credit for rural households?
- What is the most dominant source of credit? Write any two reasons.

**VII. Long Answer Questions**

**5 MARKS**

1. What is the difference between formal sector loans and informal sector loans? Give two examples of each.

Or

Mention three points of difference between the formal sector and informal sector loans.

2. What are formal sources of credit? Why do we need to expand formal sources of credit in India?

Or

Why do we need to expand formal source or credit in India? Explain any four reasons.

Or

Describe two reasons why banks and cooperative societies must increase their lending in rural areas. Give three suggestions for how it can be achieved.

Give two reasons.

4. "RBI plays a crucial role in controlling formal sector loan." Explain.

Or

In what ways does the Reserve Bank of India supervise the functioning of banks?

5. How do SHG's act to provide a platform for women to address their various social issues?

6. Self-Help Groups enjoy a lot of freedom in their functioning. Explain.

7. Self-Help Groups can help in solving the problem of credit in rural areas. Explain.

Or

In what ways do Self-Help Groups help the rural sector of the economy?

8. Describe the organization, working and importance of Self-Help Groups.

Or

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

Or

What is meant by Self Help Group? Explain its working.

9. Why are informal sources of credit preferred in rural areas? Give five reasons.

10. Why are credit arrangements not fair for all sections of society? Give three reasons. Suggest two remedies for the problem.

Or

Why is the share of formal sector credit higher for the richer households compared to the poorer households ? Give any three reasons responsible for this.

## **ANSWERS**

### **I. MCQ s;**

1. (c) Paper instructing the bank to pay a specific amount.
2. (c) interest
3. (d) depositors, borrowers
4. (d) It is an informal source of credit.
5. (b) formal credit
- 6.

<b>A</b>	<b>B</b>
a) Auto rickshaw driver	iv) To buy a new vehicle.
b) A businessman whose factory has been closed	iii) To revive his business
c) Small trader	ii) To buy a new shop for him
d) Govt. servant	i) To buy a house

7. (c) Employers
8. (d) depositors, borrowers
9. (c) It is an asset of the borrower used as guarantee to a lender.
10. (d) Does not help women to become self-reliant.
11. (c) Absence of collateral security
12. (d) It is authorised by the Government of the country
13. (c) Rate of saving
14. (c) Extend loans
15. (c) Plastic money
16. (b) The difference between what is charged from the borrowers and paid to the depositors is the main source of bank's income.

### **II. ASSERTION/REASON**

**1 Ans :** (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

The modern currency is used as a medium of exchange because it is accepted and authorized as a medium of exchange by a country's government.

**2. Ans :** (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

The law legalizes the use of rupee as a medium of payment that cannot

be refused in settling transactions in India.

3. **Ans :** (d) Both assertion and reason are false.

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.

4. **Ans :** (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

Banks keep only a small proportion of their deposits as cash with themselves because they use the major portion of the deposits to extend loans as there is a huge demand for loans for various economic activities.

5. **Ans :** (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

Banks in India hold about 15 per cent of their deposits as cash as the remaining deposits are used to provide loans. The interest charged on loans is higher than the interest paid on deposits and the difference between the two interest rates is the major source of income for banks.

6. **Ans :** (c) Assertion is true, but reason is false.

The credit made Rohan better off in this situation, however, Rohan would have been worse off if he had failed to deliver the goods on time or he had made a loss in the production process. The latter two situations may have caused Rohan to fall in a debt trap.

7. **Ans :** (c) Assertion is true, but reason is false.

Whether credit would be useful or not depends on the risks in the situation and whether there is some support, in case of loss.

### **III. CASE STUDY**

1. (b) Double coincidence of wants
2. (a) demand deposit
3. (b) Selvan is better because his interest payment is less.
4. (b) low, high
- 5.1. To small cultivators, small scale industries, to small borrowers, etc.
2. The Reserve Bank of India supervises the functioning of formal sources of loans.
3. There is no organisation which supervises the credit activities of lenders in the informal sector.
4. Informal sector

6. 1. (3) The Reserve Bank of India issues currency notes on behalf of the Central government. Nowadays paper notes and coins are used as currency in our country.
2. (2) Rupee is accepted as the medium of exchange in India.
3. (1) Central government
4. (3) As per Indian law, no other individual or organisation is allowed to issue currency. Moreover, the law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

**ANSWERS:**

1. (i) In India, the Reserve Bank of India issues currency notes on behalf of the Central Government.  
(ii) The RBI supervises the functioning of formal sources of loans.  
(iii) The RBI monitors the banks in actually maintaining cash balance.  
(iv) The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators.  
(v) Any other relevant point.  
(Any two points)
2. The modern forms of money comprises:  
**currency — paper notes and coins.**  
Unlike the things that were used as money earlier, modern currency is not made of precious metals such as gold, silver, and copper.  
And unlike grain and cattle, they are neither of everyday use.  
The modern currency is without any use of its own.
3. The demand deposits share the essential features of money:  
The facility of cheques against demand deposits make 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.
4. Debt-trap - When a borrower particularly in rural area fails to repay the loan due to the failure of the crop, he is unable to repay the loan and is left worse off. This situation is commonly called debt-trap. Credit in this case pushes the borrower into a situation from which recovery is very painful.
5. 1. Reserve Bank of India.

2. The RBI monitors that the banks actually maintain the cash balance. It also sees that the banks give loans to all rich as well as poor.

6. Meaning of Barter system: A system in which goods are directly exchanged without the use of money is called barter system.

Double coincidence of wants means when both the parties – seller and purchaser – agree to sell and buy each other's commodities. It implies that what a person desires to sell is exactly what the other wishes to buy. No money is used in such an arrangement. Therefore it is an essential feature of barter system.

7. **Modern currency is accepted as a medium of exchange without any use of its own due to reasons as :**

- In India, the Reserve Bank of India issues currency notes on behalf of the central government.
- As per Indian law, no other individual or organisation is allowed to issue currency.
- The law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.
- No individual in India can legally refuse a payment made in rupees. Hence the rupee is widely accepted as a medium of exchange.
- (Any other relevant point).
- (Any two points)

8. Credit at reasonable interest rates should be available for all so that they may increase their income and help in the over all development of the country.

1. High interest rate do little to increase the income of the borrowers.
2. It is necessary that the banks and cooperatives increase their lending particularly in rural areas, so that the dependence of the people on informal sources of credit reduces.
3. In addition to this more credit should be given to the poor to get maximum benefit from the cheaper loans.
4. This will help in increasing their income as well as standard of living.
5. Any other relevant point

(Any two points)

9. (i) Banks and cooperative societies can help people in obtaining cheap and affordable loans.

(ii) This will empower people in a variety of ways. They could grow crops, do business, set up small- scale industries etc. They could set up new industries or trade in goods.

(iii) Loans from informal lenders carry a very high interest rate and do little to increase the income of the borrowers. Thus, it is necessary that banks and cooperatives increase their lending particularly in the rural areas, so that the dependence on informal sources of credit reduces. Cheap and affordable credit is also important for the country's development.

(Any two points)

10. (i) Banks provide people the facility to deposit their surplus money by

opening a bank account in their name. Banks also pay an amount as interest on the deposits. In this way, people's money is safe with the banks and it earns an amount as interest. Thus, banks add to the income of the family.

(ii) Banks use the major portion of the deposits to extend loans to the needy. There is a huge demand for loans for various economic activities. Banks, thus, mediate between those who have surplus money and those who are in need of this money.

(iii) Banks give loans not just to profit-making businesses and traders but also to small cultivators, small-scale industries, to small borrowers, etc. Thus, they empower these people and help indirectly in the country's development.

(iv) The rate of interest that banks demand from the borrowers is always cheap and affordable. This helps people to improve their condition. Banks also give loans to industrialists. These industrialists use these loans to expand their industries. In this way, they contribute in country's development.

(v) By employing a large number of people banks solve the problem of unemployment to a great extent.

(Any two points)

#### **IV. SHORT ANSWER TYPE QNS:**

1. Barter system refers to the system of exchange of goods and services. It is the system by which one commodity or product is exchanged for another without the use of money. Before money was introduced, people were practising barter system. [write any one example]
2. Double coincidence of wants is a situation when both parties have agreed to sell and buy each other's products or commodities. It can only work when both the persons are ready to exchange each other's goods.

3. Money is a medium of exchange in transactions. A person holding money can easily exchange it for any commodity or service that he or she might want.  
Modern money currency is accepted as a medium of exchange because;
  - it is certified for a particular denomination (For example, ₹ 10, ₹ 20, ₹ 100, ₹ 1,000).
  - it is issued by the Central Bank of the country
  - it is authorized by the government of the country.
4. Collateral is an asset that the borrower owns such as land, building, vehicle, livestock, land documents, deposits with banks etc. This stands as a security against the money borrowed from the bank. In case the borrower fails to repay the loan to the bank, the lender has the right to sell the asset or collateral.
5. Rate of interest, collateral security, documentation requirements and mode of repayment together comprise terms of credit. This varies from bank to bank and borrower to borrower.
6. Supervision of the functioning of formal sources of loans is necessary because banks have to submit information to the RBI on how much they are lending, to whom they are lending and at what interest rate etc.
7. There is great need to expand formal sources of credit in rural India because: In the informal sector there is no organisation to supervise the credit activities of lenders. They lend at whatever interest rate they choose. No one can stop rural money-lenders from using unfair means to get their money back.
8. Most of the poor households are deprived from the formal sector loans because of lack of proper documents and absence of collateral.
9. Banks accept the surplus money from the people as deposits and pay interest for that. People have the provision to withdraw their money as and when they require. Since money can be withdrawn on demand, these deposits are known as demand deposits.  
Its features are: Features:
  - A demand deposit has the essential characteristic of money. It can be used as a medium of exchange.
  - The facility of cheques against demand deposits makes it possible to make payments, without using cash.
  - Since demand deposits are accepted widely as a means of payment along with currency, they constitute money in the modern economy.
10. Cheap and affordable credit is crucial for the country's growth and economic development. Credit is in great demand for various kinds of economic activities—big or small investments, to set up business, buying cars, houses, etc.



- In rural areas credit helps in the development of agriculture by providing funds to farmers to buy seeds, fertilizers, expensive pesticides.
  - Manufacturers need credit for buying raw material or to meet ongoing expenditure of production. Credit helps in the purchase of plant, machinery, equipment, etc.
  - Some people may need to borrow for personal or family needs like marriage, hospitalisation etc.
- Thus, cheap and affordable credit is crucial for the country's growth and economic development.

11. Banks and Cooperatives can help people in obtaining cheap and affordable loans. This will help people to grow crops, do business, set up small-scale industries or trade in goods and also help indirectly in the country's development. They should do so, so that relatively poor people do not have to depend on informal sources of credit like the money-lenders.

12. There is no organisation that supervises the credit activities of lenders in the informal sector. They lend at whatever interest rate they choose.

- No one can stop rural money-lenders from using unfair means to get their money back.
- Informal lenders charge a very high rate of interest on loans and as a result a larger part of the earnings of the borrowers and farmers are used to pay the loans.
- The amount to be repaid is often greater than income, and farmers and other borrowers in villages fall in a debt trap.

Thus, it is necessary that banks and co-operatives increase their lending, particularly in rural areas, so that dependence on informal sources of credit ends.

13.1 Money lenders and cooperative societies.

13.2 Money lenders

13.3 i) Money lenders do not ask for collateral

ii) Complicated paper work or documentation is not involved.

## **V. LONG ANSWER TYPE QNS:**

### **1. Formal Sector Loans:**

- (1)Comparatively rate of interest charged is lower than that of the informal sector loans.
- (2) RBI supervises their function of giving loans.
- (3) Collateral is required to obtain credit.
- (4) Rich urban households depend largely on formal sources of credit.

(5) Examples: Banks and Co-operatives.

**Informal Sector Loans:**

- (1) Higher interest rates on loan are charged.
- (2) No organization is there to supervise its lending activities.
- (3) They are ready to give loans without collateral.
- (4) Poor households largely depend on informal sources.
- (5) Examples : Traders, employers, money-lenders, relatives, friends, etc.

**2.** (1) **The formal source of credit** includes a loan from banks and co-operatives.

(2) We need to expand formal sources of credit in India for the following reasons :

(i) Formal sources of credit are less risky and they charge a low rate of interest.

(ii) The Reserve Bank of India supervises the functioning of formal sources of loans. It monitors the banks in actually maintaining a cash balance.

(iii) RBI ensures that loans are given not only to the profit-making businessmen and traders but also to small cultivators, small-scale industries, small borrowers, etc.

(iv) Compared to the formal lenders, most of the informal lenders charge higher interest rates. Thus, the cost to the borrower becomes much higher that leads to less income. Also, the borrowers may become victim to debt-trap. So, formal sector loans help reduce dependence on informal sources of credit.

(v) Due to the high interest rates of the informal source of credit, people who might wish to start an enterprise by borrowing, may not do so because of the high cost of borrowing.

(vi) Cheap and affordable credit by the formal sector is crucial for the country's development.

(3) (i) The bank should open its branches in villages.

(ii) The RBI should give guidelines to the bank to make loan procedure simpler.

(iii) Public awareness of the banks and cooperatives should be increased.

**3.** (1) When the credit pushes the borrower into a situation from which the recovery is very painful, it is called **debt-trap**. For example, in the case of crop failure small or marginal farmers have to sell a portion of his/her land to repay the loan.

(2) The debt-trap is rampant in rural areas because of the following reasons :

(i) Farmers take loans for crop production, equipment, fertilizers, etc. If crop failure happens due to any reason, they become unable to pay back the loan.

(ii) There is usually an absence of any kind of support to the farmers in case of crop failure. So, they are clearly much worse off than before.

4. (1) The **Reserve Bank of India** supervises the functioning of formal sources of credit in India. It is the central bank of India.

(2) It supervises the functioning of banks in the following ways :

(i) The RBI monitors that the banks actually maintain a minimum cash balance out of the deposits they receive. Banks in India these days, hold about 15 per cent of their deposits as cash.

(ii) RBI ensures that the banks give loans not just to profit-making business and traders but also to small cultivators, small-scale industries, small borrowers, etc.

(iii) Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rates, etc.

5. **SHGs act** to provide a platform for women to address their various social issues in the following ways:

(1) A Self-Help Group is an organization of rural poor, particularly women who pool their savings.

(2) The SHG encourages its members for savings and enables them to take small loans from the group itself to meet their needs. In this way, it addresses their economic issue that is the base of many social issues.

(3) SHGs are the building blocks of the organization of the rural poor. Not only does it help women to become financially self-reliant, but the regular meetings of the group also provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

(4) The SHG provides self-employment opportunities to its members by providing them loans for meeting working capital needs, for housing materials, for acquiring assets like a sewing machine, handlooms, cattle, etc.

(5) The group charges interest on these loans but this is still less than what the money-lenders charge.

6. (1) In **Self-Help Groups**, there is no provision of a certain number of members or a certain amount to deposit. Members are free to their number and amount to deposit in the group.

(2) Most of the important decision regarding the savings and loan activities are taken by the group members.

(3) The group decides as regards the loans to be granted—the purpose, amount, interest to be charged, repayment schedule, etc.

(4) Also, it is the group which is responsible for the repayment of the loan. In any case of non-repayment of the loan by anyone, the member is followed up seriously by other members in the group.

(5) The SHGs help borrowers overcome the problem of lack of collateral and documentation requirement. Besides, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

7. (1) The absence of collateral is one of the major reasons which prevent the poor from getting bank loans. Whereas, there is no need for collateral or difficult paperwork to take loans from **SHGs**.

(2) SHGs have a lower interest rate than that of moneylenders or traders. They can get timely loans for a variety of purposes.

(3) It creates employment opportunities for the members who are rural poor, particularly women.

(4) It encourages regular savings of the rural poor.

(5) SHGs help rural women not only to become financially self-reliant but also, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

8. (1) **SHGs** are the groups created by the needy persons themselves, especially women to fulfil their credit and loan needs. A typical SHG has 15-20 members, who meet and save regularly.

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

(3) Members can take small loans from the group itself to meet their needs.

(4) The group charges interest on these loans but this is still less than what the money-lenders charge.

(5) If the group is regular in savings, it becomes eligible for availing loan from the bank. The loan is sanctioned in the name of the group and is meant to create self-employment opportunities for the members.

9. (1) There is no need for collateral such as land; building, vehicles, deposits with banks. The rural poor people are unable to provide collateral.

(2) Also, there is no need for complicated paperwork which the rural poor are not capable of providing.

(3) These moneylenders, traders and rich landlords continue to extend loans to defaulters even if the previous loan is unpaid.

(4) They are hesitant and unsure about the functioning of the banks.

(5) They may not have access to banks in their villages.

(6) The procedure for giving credit is often very simple.

**10.** (1) Undoubtedly, credit arrangements are not very fair for all sections of society. The share of formal sector credit is higher for the richer households as compared to the poorer households.

This has the following reasons:

(i) Poverty affects poor households' capacity to borrow. Formal sector credit requires proper documents and collateral as security against loans. Collateral is an asset. So, poor people lack in providing such things which affect their capacity to borrow.

(ii) The poor people do not repay

(iii) The people in villages may not have access to banks in their village. Also, they are R. loan on time because of the various day-to-day needs. - hesitant and unsure about the functioning of the banks.

(2) (i) More credit facilities should be made available in rural areas by opening more banks there.

(ii) The procedure of giving loans should be made easier and simpler.

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