

Money And Credit (prctice- 3)

Q.1 MCQs

- 1) Money is based on
 - (a) double coincidence of wants
 - (b) single coincidence of wants
 - (c) Both a and b
 - (d) None of these
- 2) Money is a measured of
 - (a) Currency
 - (b) Value
 - (b) Transfer
 - (c) All of these
- 3) A porter 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?
 - (a) Incidence of wants
 - (b) Double coincidence of wants
 - (c) Barter system of wants
 - (d) None of the above
- 4) The problem of similar wants made exchange difficult, so a new medium of exchange was developed known as
 - (a) capital
 - (b) cost
 - (c) rent
 - (d) money
- 5) A substitute of cash and cheque is
 - (a) credit card
 - (b) coin
 - (c) currency
 - (d) demand deposit
- 6) Modern forms of money include which of the following?
 - (a) Currency notes and coins
 - (b) Cowries shells and stones
 - (c) Gold and silver coins
 - (d) Grains and cattle
- 7) Organized credit is also called
 - (a) informal credit
 - (b) formal credit
 - (c) cooperative credit
 - (d) none of these
- 8) What is the most important function of money?
 - (a) Used in banking transactions
 - (b) Payment of loans
 - (c) Medium of exchange
 - (d) Stock market exchange
- 9) Bank laying down norms for bank is
 - (a) RBI
 - (b) SBI
 - (c) syndicate bank
 - (d) all of these

- 10) Raghav has surplus money so 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
- 11) A person can withdraw money 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
- 12) In agricultural stage grains were used as
- (a) money
 - (b) commodity
 - (c) ingredient
 - (d) none of these
- 13) What is the most important function of the banks?
- (a) Accept deposits and extend loans.
 - (b) Give loans to government.
 - (c) Open as many bank accounts as possible.
 - (d) Give loans to businesses.
- 14) Banks give out loans and charge on the loan amount from the borrower.
- (a) rent
 - (b) wages
 - (c) interest
 - (d) money
- 15) All the banks act as mediator between and
- (a) rural people, urban people
 - (b) literates, illiterates
 - (c) people, government
 - (d) depositors, borrowers
- 16) Percentage of formal sector in total credit in India in poor household is
- (a) 15
 - (b) 20
 - (c) 70
 - (d) 80
- 17) Which among the following lenders will possibly not ask the borrower to sign the terms of credit?
- (a) Banks
 - (b) Moneylenders
 - (c) Cooperatives
 - (d) Private agencies
- 18) Method of repayment of loan is called
- (a) mode of payment
 - (b) method of payment
 - (c) mode of repayment
 - (d) none of these

- 19) Which among the following is not a feature of informal source of credit?
- (a) It is supervised by the Reserve Bank of India.
 - (b) Rate of interest is not fixed.
 - (c) Terms of credit are very flexible.
 - (d) Traders, employers, friends, relatives, etc provide informal credit source.

- 20) An example of cooperative society can be of
- (a) farmers
 - (b) workers
 - (c) women
 - (d) all of these

- 21) A trader provides farm inputs on credit on the condition that farmers will sell their crop produce 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
- 22) 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.

23. National Sample Survey Organisation is a:

- (a) Commercial BANK organisation
- (b) An organisation of World bank
- (c) An organisation associated with Standard of products
- (d) An institution responsible to collect data on formal sector credit.

24. In SHG most of the decisions regarding savings and loan activities are taken by:

- (a) Bank
- (b) Members
- (c) Non-government organisations
- (d) LIC

25. Security (pledge, mortgage) against loans is called :

- (a) Collateral
- (b) Token Coins
- (c) Promissory Note
- (d) Currency

26. The founder of Grameen bank of Bangladesh was:

- (a) Amartya Sen
- (b) Mohammad Salam
- (c) Mohammad Yunus
- (d) None of the above

27. Who issues currency notes on behalf of the Central government in India?

- (a) Canara bank
- (b) Reserve Bank of India
- (c) World Bank
- (d) State Bank of India

28. Major portion of the deposit as used by banks for:

- (a) setting up new branches
- (b) paying taxes
- (c) paying interest on loans
- (d) extending loans

29. What is the main source of income for banks?

- (a) interest on loans
- (b) interest on deposit
- (c) Difference between the interest charged on borrowers and depositors
- (d) None of these

30. A 'debt trap' means:

- (a) unable to repay credit amount
- (b) able to pay credit amount
- (c) overspending till no money is left
- (d) none of these

ASSERTION AND REASON QUESTIONS

DIRECTION : Mark the option which is most suitable :'

- (a) Both assertion and reason are true, and reason is the correct explanation of assertion.
 - (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.
 - (c) Assertion is true, but reason is false.
 - (d) 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: Sohan 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 sohan 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.

8. Assertion: Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

Reason: Collateral is given as the lender can sell the collateral to recover the loan amount if the borrower fails to repay the loan.

9. Assertion: The terms of deposit are same for all credit arrangements.

Reason: Credit arrangements are very complex process so to remove the complexities same terms of deposits are used.

10 Assertion: The Reserve Bank of India supervises the functioning of formal sources of loans.

Reason: 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.

Praxis Education

CASE BASED QUESTIONS

Section A

Read the extract given below and answer the questions that follows: -

Self-help groups exist in the rural parts of India. It organizes the rural poor especially women into small groups and collects their savings. It has 15 to 20 members usually belonging to the same neighbourhood who meet and save regularly. The saving may vary from rupees 25 to rupees hundred or even more depending upon the ability of the people to save. The members can take small loans from the group itself to meet the requirements. The group charges rate of interest on these loans but it is less than the interest charged by the moneylender. After a year or two 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. For example, the loan is given to the members for releasing mortgaged land, to meet the working capital requirements, to purchase assets and housing material. The members take the decision regarding the Savings and loan activities of the group. It also decides on the nature of the loan to be granted including the purpose, amount, rate of interest and the repayment schedule. In the case of non payment of the loan by any one member is followed up seriously by the other members in the group. Due to this reason, banks are willing to lend to poor women when organized in a self-help group even though they have no Collateral as such. solves the problem of a lack of collateral. It provides timely loans for various purposes and at a reasonable interest rate, helps women to become financially self-reliant, provides a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc. SHGs help borrowers overcome the problem of lack of collateral. They can get timely loans for a variety of purposes and at a reasonable interest rate. Moreover, SHGs are the building blocks of organisation of the rural poor. Not only does it help women to become financially self-reliant, 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. Andhra Pradesh accounts for maximum percentage of SHGs in bank credit.

1. In SHG most of the decisions regarding savings and loan activities are taken by:

- (a) Bank
- (b) Members
- (c) Non-government organisations
- (d) LIC

2. What are SHGs?

- (a) They are self help groups formed by the poor rural women.
- (b) formed by government
- (c) Non-government organisations
- (d) formed by private institutions.

3. Who helps the borrowers to overcome the problem of lack of collateral?

- (a) Self-help group (SHG)
- (b) State government
- (c) Employers
- (d) Moneylenders

4. Which state accounts for maximum percentage of SHGs (self-help groups) in bank credit?

- (a) Andhra Pradesh
- (b) Tamil Nadu
- (c) Kerala
- (d) Karnataka

5. A typical Self Help Group usually has

- (a) 100-200 members
- (b) 50-100 members
- (c) less than 10 members
- (d) 15-20 members

Section B

Read the extract given below and answer the questions that follows: -

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 authorized by the government of 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 organization is allowed to issue currency. Moreover, the law legalizes 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.

1. Modern forms of money include currency _____.

- (A) Gold, silver and copper.
- (B) Stone punch marks coins.
- (C) Paper notes and coins.
- (D) None of the above.

2. Why modern currency is accepted as a medium of exchange?

- (A) Because it is use by everyone.
- (B) Because it is authorized by the government of the country.
- (C) Because making of modern currency very easy .
- (D) All of the above.

3. Which one of the following authorises money as a medium of exchange?

- (A) Reserve Bank of India.
- (B) State bank of India.
- (C) Ministry of Finance.
- (D) None of the above.

4. Give an example of Modern forms of money?

- (A) Demand draft.
- (B) Deposit form.
- (C) ATM card.
- (D) All of the above.

5. Which among the following banks issues currency notes on behalf of the Central Government in India?

- (a) RBI
- (b) State Bank of India
- (c) Bank of India
- (d) Central Bank of India