



INDIAN SCHOOL AL WADI AL KABIR

Class: X	Department: Social Science	Sub: Economics
Chapter-3 Question Bank:3	Topic: Money and Credit (Eco)	Year: 2022-2023

1	<p>Define Barter System by giving an example.</p> <p>Ans:</p> <ul style="list-style-type: none">• Barter system is a system where goods are exchanged directly without the use of money.• Double coincidence of wants (i.e. a person desires to sell exactly what the other person wishes to buy) is an essential feature of the Barter System.• For example, a shoe manufacturer sells shoes in exchange for wheat. In this case, both parties i.e., manufacturer and wheat farmer have to agree to sell and buy each other's commodities.
2	<p>How does money solve the problem of double coincidence of wants? Explain with an example.</p> <p style="text-align: center;">OR</p> <p>What was the shortcoming of the barter system that led to the evolution of money as a medium of exchange?</p> <p style="text-align: center;">OR</p> <p>How can money easily exchange it for goods or services? Give an example to explain.</p> <p style="text-align: center;">OR</p> <p>Do you think money makes it easier to exchange things? Explain with the help of an example.</p> <p>Ans.</p> <ul style="list-style-type: none">▪ Double coincidence of wants is an essential feature in a barter system where goods are directly exchanged without the use of money. But on the other hand, in an economy where money is in use, money by providing the crucial intermediate step eliminates the need for double coincidence of wants.▪ A person holding money can easily exchange it for any commodity or service that he or she might want.▪ For example: It is no longer necessary for the shoemaker to look for a farmer who will buy his shoes and at the same time sell him wheat. Once the shoe manufacturer exchanges his shoes for money, he can purchase wheat or any other commodity in the market.
3	<p>Write the drawbacks of Barter system</p> <p>Ans.</p> <p>Drawbacks of Barter Systems are as follows:</p> <ul style="list-style-type: none">• Mutual satisfaction of wants is not possible always• Lack of a common measure of value.• Difficulty in making deferred payments.• Lack of Store of value

4	<p>What are the modern forms of money? Why is it accepted as a medium of exchange?</p> <p style="text-align: center;">OR</p> <p>“Why is modern currency accepted as a medium of exchange without any use of its own”. Find out the reason.</p> <p style="text-align: center;">OR</p> <p>“The rupee is widely accepted as a medium of exchange”. Give reasons.</p> <p>Ans.</p> <ul style="list-style-type: none"> • The modern forms of money include currency- paper notes and coins and deposits with banks. • Modern currency 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. • Indian law legalizes the use of rupee as a medium of payment that cannot be refused in setting transactions in India. • No individual in India can legally refuse a payment made in rupees.
5	<p>How is money used in everyday life? Explain with examples.</p> <p>Ans:</p> <ul style="list-style-type: none"> • Money plays a central role in our daily life. It is used as a medium of exchange to carry out transactions. • Money buys us food, clothing, shelter and other basic necessities of life. • Money provides us social security. • It is needed to procure services like transport, education, healthcare, entertainment, recreation, and so on. • Money facilitates business and trade and is the basis of the working of an economy.
6	<p>Why are the deposits in the banks called ‘demand deposits’? What are the benefits of deposits with the banks?</p> <p>Ans:</p> <p>People deposit the surplus or extra money in the banks. The deposits can be drawn at any time on demand by the depositors. That is why they are called demand deposits.</p> <p>The benefits of deposits are as follows:</p> <ul style="list-style-type: none"> • Banks accept the deposit and pay an interest rate on the deposits. • Money is safe with the bank. • People (depositors) may withdraw the money as and when they require. • Depositors may make payments through cheques instead of cash.
7	<p>Why are demand deposits considered as money?</p> <p>Ans:</p> <p>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.</p>

8	<p>How is money transferred from one bank account to another bank account? Explain with an example.</p> <p style="text-align: center;">OR</p> <p>What is a Cheque? How does it replace currency?</p> <p>Ans.</p> <ul style="list-style-type: none"> • For payment through cheque, the payer who has an account in the bank, draws out a cheque for a specific amount. • The cheque is a statement instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued. • For example, Aman has to pay a specific amount of money to Shruti, say Rs. 60,000. Aman will write a cheque in the name of Shruti. It means Aman instructs his bank to pay the money to Shruti. Shruti will deposit the cheque in her bank. After two or three days, the money will be transferred from Aman's account to Shruti's account.
9	<p>How do banks mediate between those who have surplus money and those who need money?</p> <p>Ans.</p> <ul style="list-style-type: none"> • A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it. • Banks accept deposits from people who have surplus money, paying interest on these deposits. • The banks use the major portion of the deposits to extend loans to those who need money, charging them slightly higher interest than what they pay to the depositors. • In this way banks mediate between those who have surplus money and those who need money.
10	<p>What is a credit? What comprises 'terms of credit'?</p> <p>Ans:</p> <ul style="list-style-type: none"> • Credit means loan. It refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future repayment. • Interest rate, collateral, documentation requirement and mode of repayment together comprise terms of credit.
11	<p>What is collateral? Why do banks ask for collateral while giving credit to a borrower?</p> <p>Ans:</p> <ul style="list-style-type: none"> • Collateral is an asset that the borrower owns (land, building, vehicle, livestock, land documents, deposits with banks, etc.) which stands as a security against the money borrowed. • In case the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to recover the loan money. Most lenders ask for collateral while lending as a security against their own funds.
12	<p>"Whether credit will be useful or not, depends upon the situation." Give two different examples in support of this statement.</p> <p style="text-align: center;">OR</p> <p>When does credit push the borrower into a debt-trap? Explain with the help of an example.</p>

	<p style="text-align: center;">OR</p> <p>How does credit play a vital and positive role? Explain with an example.</p> <p style="text-align: center;">OR</p> <p>Give an example to show how credit can play a positive and vital role in the life of a borrower.</p> <p>Ans.</p> <p>It is true to say that the usefulness of credit depends on the situation.</p> <p>Positive role of credit: -</p> <ul style="list-style-type: none"> ● Credit plays a positive role when the borrower is able to return the loan amount on time and also makes some profit with the use of that money. ● For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pairs of shoes, in the end he delivered the order, made profit and repaid the loan. In such a situation credit plays a positive role and the borrower is able to improve his condition. <p>Negative role of credit: -</p> <ul style="list-style-type: none"> ● Sometimes credit is very painful as it pushes the borrower into such a situation from which recovery is very difficult. In this situation the borrower is not able to repay the loan and many times caught into the situation of debt-trap. ● For example: -a small farmer Swapna takes a loan to meet the expenses of cultivation hoping that there would be a good harvest and he would repay the loan. The harvest, however, fails and the farmer is unable to repay the loan. Next year again he takes out a loan but the crop is not good and loan repayment cannot be made. The borrower has no option but to sell a part of his land to pay off the loan. Loan/credit instead of helping the farmer improve his condition, left him worse off. He falls into debt-trap. Credit in this case pushes the borrower into a situation from which recovery is very painful.
13	<p>Explain with an example, how credit plays a vital and positive role for development.</p> <p style="text-align: center;">OR</p> <p>Give an example to show how credit can play a positive and vital role in the life of borrower.</p> <p>Ans.</p> <ul style="list-style-type: none"> ● Credit plays a positive role when the borrower is able to return the loan amount on time and also makes some profit with the use of that money. ● For example: Salim, a shoe manufacturer took a loan from different sources to complete the order of 3000 pairs of shoes, in the end he delivered the order, made profit and repaid the loan. In such a situation credit plays a positive role and the borrower is able to improve his condition.
14	<p>Credit can push the borrower into a situation from which recovery is very painful. Explain with the help of an example.</p> <p>Ans.</p> <ul style="list-style-type: none"> ● Sometimes credit is very painful as it pushes the borrower into such a situation from which recovery is very difficult. In this situation the borrower is not able to repay the loan and many times caught into the situation of debt-trap. ● For example: -a small farmer Swapna takes a loan to meet the expenses of cultivation hoping that there would be a good harvest and he would repay the loan. The harvest,

however, fails and the farmer is unable to repay the loan. Next year again he takes out a loan but the crop is not good and loan repayment cannot be made. The borrower has no option but to sell a part of his land to pay off the loan. Loan/credit instead of helping the farmer improve his condition, left him worse off. He falls into debt-trap. Credit in this case pushes the borrower into a situation from which recovery is very painful.

15 **What is called a debt trap?**
 Ans:
 When credit pushes the borrower into a situation from which recovery is very painful, it is called a debt trap.

16 **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 loans. Create a list of arguments explaining who between the two would successfully be able to arrange money from a formal source. Why?**

Ans:
 Dhananjay will be able to get a loan from a formal source.
 Arguments: -

- Dhananjay is a government employee and belongs to a rich household.
- He has the capacity to repay the loan within a given frame of time.
- Since he is well-off, he has enough collateral which he can use as a guarantee to the bank until the loan is repaid.

17 **Write the main differences between formal sector credit and informal sector credit.**
OR
Compare Formal sector loans with Informal sector loans.
OR
Why are service conditions of formal sector loans better than informal sector loans? Explain.
 Ans: -

Formal Sector credit	Informal Sector credit
The credit is provided by Banks and Cooperatives.	The credit is provided by Moneylenders, Traders, Employers, Relatives and Friends etc.
The Reserve Bank of India (RBI) organize the functioning of formal sources of loans.	There is no organization which supervises the loan activities of lenders.
RBI checks on how much they are lending and at what interest.	They can lend the money at whatever interest rate they select.
This sector has some rules and boundaries to get the money back.	No one can stop them using unfair means to get their money back.
They charge reasonable interest as compared to informal lenders on credit.	They charge much higher interest as compared to formal lenders on credit.
They provide cheap and affordable credit with common terms of credit for all.	Terms of credit are flexible for the personal benefit of the lenders and pitiable condition of borrowers.
The main motive is public welfare.	The main motive is to make their own profits.

18	<p>In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?</p> <p style="text-align: center;">OR</p> <p>Which government body supervises the functioning of formal sources of loans in India? Explain its functioning.</p> <p style="text-align: center;">OR</p> <p>Explain why the supervision of the functioning of formal sources of loan is necessary?</p> <p style="text-align: center;">OR</p> <p>Explain the significance of The Reserve Bank of India in the Indian economy.</p> <p>Ans. The Reserve Bank of India is the apex of the country, supervising the functioning of formal sources of credit as:</p> <ul style="list-style-type: none"> • It monitors that the banks maintain the required cash balance with them. • It supervises that the banks give loans not just to profit making businesses and trade but also to small cultivators, small scale industries etc. • It is mandatory for the banks to submit information to RBI periodically on how much they are lending, at what interest rate and to whom. • It issues guidelines for fixing rate of interest on deposits and lending by banks.
19	<p>Why is cheap and affordable credit crucial for the country's development? Explain with reasons.</p> <p>Ans. Cheap and affordable credit is crucial for the country's development because:</p> <ul style="list-style-type: none"> • More lending would lead to higher incomes and encourage people to invest in agriculture, engage in business and set up small industries. • Cheap credit will enable more investment. This led to an acceleration of economic activity. • Cheap credit would also follow weaker sections of society to access the formal sector of lending and get rid of informal money lenders. • Affordable credit would also end the cycle of debt trap. • Cheap and easy forms of credit would inspire better investment in technology and thus increase competition.
20	<p>Why is it necessary for banks and co-operatives to increase their lending in rural areas? Explain.</p> <p style="text-align: center;">OR</p> <p>Why is there a need to expand the formal sources of credit in India?</p> <p>Ans.</p> <ul style="list-style-type: none"> • Formal sources are behind in meeting the needs of the people in rural areas. Informal sources like moneylenders, traders have taken the rural areas under their influence. • Informal sources charge a high rate of interest from the borrowers which makes it difficult for them to repay the loan. They get trapped in the debt –trap. • Informal sources are not under any supervision from any authorized institution. They behave arbitrarily in terms of giving loans and setting terms of credit.

	<ul style="list-style-type: none"> • The rich have better access to formal sources whereas the poor are forced to depend on informal sources. Equal distribution of credit facilities is, therefore, required. So that the poor can also avail cheap and timely credit facilities. • Formal sources of credit can help people in rural areas to avail other benefits like cold storage facilities, subsidized seeds and other agricultural inputs.
21	<p>Describe the bad effects of informal sources of credit on borrowers.</p> <p>Ans.</p> <p>The bad effects of the informal sources of credit on borrowers are mentioned below:</p> <ul style="list-style-type: none"> • The informal sources of credit include moneylenders, traders, lenders, relatives, and friends. • The informal sources of credit exploit the people by charging exorbitant rate of interest. This makes the cost of borrowing even higher. • The higher cost of borrowing indicates that a large part of the earning of the borrowers will be used to repay the loan. They will have less income left for themselves. • Those people who wish to start their own business by borrowing may not be able to do so due to this high cost.
22	<p>“Poor households still depend on informal sources for credit”. Why?</p> <p>Ans.</p> <ul style="list-style-type: none"> • Banks are not present everywhere in rural areas. • Bank loans require proper documentation and collateral which is rarely available with poor households. • Informal lenders like money lenders know the borrowers personally and are often willing to give a loan without collateral. • The borrowers, if necessary, approach the moneylenders without paying their earlier loans.
23	<p>Explain the role of Self-Help Groups (SHGs) in the rural society.</p> <p style="text-align: center;">OR</p> <p>What is the basic objective of ‘Self Help Groups’? How do they work? Describe any four advantages of ‘Self Help Groups’ for the poor.</p> <p style="text-align: center;">OR</p> <p>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.</p> <p style="text-align: center;">OR</p> <p>Self-Help Groups can help in solving the problem of credit in rural areas. Explain.</p> <p style="text-align: center;">OR</p> <p>In what ways do Self-Help Groups help the rural sector of the economy?</p> <p>Ans.</p> <p>The basic objective of ‘Self Help Groups’ is to organize rural poor, particularly women belonging to one neighborhood into small Self-Help Groups (15-20 members). These members save regularly and the amount varies from ₹25-100 or more depending upon their ability to save.</p>

Advantages of 'Self Help Groups' are as follows:

- The members can take small loans from the group itself to meet their needs. The group charges interest on these loans which is still less than what moneylenders charge.
- After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank which is sanctioned in the name of the group to create self-employment opportunities.
- All important decisions regarding loan, purpose, amount of interest, non-payment of loan are taken by the group members.
- For instance, small loans are provided to the members for releasing mortgaged land, meeting working capital needs, for acquiring assets like sewing machines, handlooms, cattle etc.
- Since non-repayment of loans is dealt with seriously by group members, therefore banks are willing to lend to the poor women when organized in SHGs, even though they have no collateral as such. Thus, the SHGs 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.

24

What determines the main source of income of the bank?

Ans.

It is the difference between what is charged from the borrowers and what is paid to the depositors which determines the main source of income of the bank.

25

What objects were used as money in India before the introduction of coins?

Ans:

Since the early ages Indians used food grains and cattle as money. Thereafter came the use of metallic coins like gold, silver and copper coins.