INDIAN SCHOOL AL WADI AL KABIR

Class: X	Department: Social Science	Sub: Economics
Chapter-3 Question Bank:3	Topic: Money and Credit	Year: 2026-27

1	**Define Barter System with an example.** Ans. • Barter system is a system where goods are exchanged directly without the use of money. • Double coincidence of wants is an essential feature of the barter system. It means both parties have to agree to sell and buy each other's commodities. In other words, what a person desires to sell is exactly what the other wishes to buy. • For example: Take the case of a shoe manufacturer who wants to sell shoes in the market and buy wheat. In this system he would have to look for a wheat growing farmer who not only wants to sell wheat but also wants to buy the shoes in exchange.
2	**How does money solve the problem of double coincidence of wants? Explain with an example.** **OR** **What was the shortcoming of the barter system that led to the evolution of money as a medium of exchange? Explain.** **OR** **Do you think money makes it easier to exchange things? Explain with the help of an example**. Ans. • Double coincidence of wants is an essential feature of a barter system where goods are directly exchanged without the use of money. • In a monetary economy, money removes the need for double coincidence of wants, allowing easy exchange for any desired good or service. • Since money acts as an intermediate in the exchange process, it is called a medium of exchange. • For example: -Take the case of a shoe manufacturer who wants to sell shoes in the market and buy wheat. Here the shoe manufacturer need not find a farmer who wants shoes and sells wheat. By selling shoes for money, he can buy wheat or any other commodity.
3	**"Explain the evolution of currency over time."** Ans. • Barter system was the earliest method to buy and sell goods. • Before the introduction of coins, a variety of objects were used as money like grains and cattle. • Thereafter came the use of metallic coins-gold, silver, copper coins. • Modern forms of money include Currency (paper notes and coins) and Deposits with banks.

4	**"Modern currency is accepted as a medium of exchange without any use of its own". Justify.** **OR** **"The rupee is widely accepted as a medium of exchange". Give reasons.** Ans: • Modern forms of money include Currency (paper notes and coins) and Deposits with banks. • It is different from earlier forms of money because it is not made of precious metals like gold, silver or copper and unlike grain or cattle, it is not used in everyday life. • 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. • The law mandates that the rupee is a legally recognized medium of payment in India, which no individual can refuse for settling transactions, making it widely accepted as a medium of exchange.
5	**"Bank deposits are called demand deposits". Why? What are the benefits of bank deposits?** Ans: • People deposit the surplus or extra money in the banks by opening a bank account in their name. People have the provision to withdraw the money as and when they require. Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called **demand deposits.** The benefits of bank deposits are as follows: ▪ Banks accept the deposit and pay an interest 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.
6	**What is a Cheque? How does it replace currency?** Ans. • A cheque is a paper 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 payment through cheque, the payer who has an account with the bank, makes out a cheque for a specific amount. • For example: Salim, a shoe manufacturer, writes a cheque instructing his bank to pay a specific amount to his leather supplier. The supplier deposits the cheque in his bank account. Within a few days, the money is transferred from Salim's bank account to the supplier's account, completing the transaction without any cash exchange. This example shows how cheques facilitate direct payments without using cash.
7	**How do banks mediate between the depositors and the borrowers?** **OR** **What determines the main source of income of the bank?** **OR** **How do banks utilize the deposits they accept from the public? Explain.** **Answer:** • Banks keep only a small proportion of their deposits as cash to meet the withdrawal needs of depositors. For example, according to the Text Book at present it is about 5% of deposits. • Banks use the major portion of deposits to provide loans to people for various economic activities.

	• Banks meet the loan requirements of people because there is a huge demand for loans for different purposes. • Banks act as intermediaries between people who have surplus funds (depositors) and those who need funds (borrowers). • Banks charge a higher rate of interest on loans than the interest they pay on deposits. The difference between the interest received and the interest paid is their main source of income.
8	**What is a credit? What comprises the 'terms of credit'?** Ans: • Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment. • Interest rate, collateral, documentation requirement and mode of repayment together comprises the 'terms of credit'.
9	**"Whether credit will be useful or not, depends upon the situation." Give two different examples in support of this statement.** **OR** **''Credit is useful as well as harmful, it depends on the risk involved.'' Support the statement with examples.** **OR** **When does a credit push the borrower into a debt-trap? Explain with the help of an example. (Answer for the last question is only write the Negative role of credit)** Ans. It is true to say that the usefulness of credit depends on the situation. **Positive role of credit** 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, got an order for 3,000 pairs of shoes to be delivered in a month. • He took loans from two sources to complete the production on time. • At the end of the month, he delivered the order, made a good profit, and repaid his loans. • In this case, credit plays a positive role and the borrower is able to improve his financial condition by increasing his earnings. **Negative role of credit** 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 gets caught into the situation of **debt-trap.** For example: • Swapna, a small farmer, borrows money from a lender to meet the expenses of cultivation, hoping her harvest will repay the loan. • She can't repay the lender, so the debt grows over the year. • The next year, she borrows again for farming, but her earnings still don't cover the old loan. • She is trapped in debt and has to sell part of her land to pay off the debt. • This makes her situation much worse and traps her in a cycle of debt.
10	**What is a collateral? Why do banks ask for collateral while giving credit to a borrower?**

Ans:

- 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.
- Banks ask for collateral while giving credit to a borrower.
- If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

11 **'People obtain loans from various source'. Which are the different sources of credit mentioned in the statement?**

Ans:

The various types of loans can be grouped as formal sector loans and informal sector loans.

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 and supervises the functioning of formal sources of loans	There is no organization which supervises the credit activities of lenders in the informal sector.
RBI checks on how much they are lending and at what interest and has some rules and boundaries to get the money back.	They can charge any interest rate and use unfair ways to recover their money without anyone stopping them.
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 main motive as public welfare.	Terms of credit are flexible for the personal benefit of the lenders and the main motive is to make their own profits.

12 **Which government body supervises the functioning of formal sources of loans in India? Explain its functioning.**

OR

Explain the significance of the Reserve Bank of India in the Indian economy.

Ans:

The Reserve Bank of India is the apex institution of India's monetary system which supervises the functioning of formal sources of credit

- 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.
- RBI checks on how much they are lending and at what interest and has some rules and boundaries to get the money back.

13	**Why is cheap and affordable credit crucial for the country's development? Explain with reasons.** **OR** **Why is it necessary for banks and co-operatives to increase their lending in rural areas? Explain.** **OR** **Why there is a need to expand the formal sources of credit in India?** Ans: • Informal lenders charge more interest than formal ones, so borrowers spend more of their earnings on loan repayment and have less money left for themselves. • Sometimes, the high interest can make the repayment amount greater than the borrower's income. This situation can lead to increasing debt and a debt trap. • High borrowing costs prevent people from starting businesses, so banks and cooperatives should lend more. This would raise incomes and promote investment in farming, business, and small industries. That's why cheap and easy credit is vital for the country's growth. • Currently, formal credit sources meet only about half of rural people's total credit needs. The rest is sourced from informal lenders with high-interest rates. Banks and cooperatives need to increase lending, especially in rural areas, to reduce dependence on informal sources. • Formal loans should expand, so everyone can access them. Presently, rich families get formal credit, but the poor depend on expensive informal loans. Fair distribution of formal credit will help the poor benefit from cheaper loans.
14	**Abhishek is a government employee and belongs to a rich household whereas Adit 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: Abhishek will be able to get a loan from a formal source. Arguments: • Abhishek 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.
15	**"Poor households still depend on informal sources for credit". Why?** Ans. • 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. • Getting a loan from a bank is much more difficult than taking a loan from informal sources.
16	**Explain the role of Self-Help Groups (SHGs) in the rural society.** **OR** **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. Ans. 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. **Advantages of 'Self Help Groups' are as follows:** • Members can take small loans from the group at lower interest than moneylenders. If the group saves regularly for a year or two, it can get a bank loan in the name of the group to create self-employment opportunities. • All important decisions regarding loan, purpose, amount of interest, non-payment of loan is taken by the group members. • For instance, small loans are provided to the members for releasing mortgaged land, meeting working capital needs (buying seeds, fertilizers, raw materials etc.), for acquiring assets like sewing machines, handlooms, cattle etc. • SHG members take loan repayment seriously, so banks lend to poor women in these groups even without collateral. This helps women become financially independent. • 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.
17	**How has the Grameen Bank empowered the poor in Bangladesh through microfinance?** Ans: • The Grameen Bank of Bangladesh is a microfinance institution that began in the 1970s as a small project. By 2018, it had over 9 million members across 81,600 villages in Bangladesh. • It provides credit at reasonable rates to the poor, especially women. • The bank has shown that poor women are reliable borrowers who can successfully run small income-generating activities.
18	**How do cooperative societies help in providing credit in rural areas?** Ans: • Cooperative societies are a major source of cheap credit in rural areas besides banks. • Members pool their resources and the cooperative uses these deposits as collateral to obtain loans from banks. • For example, Krishak Cooperative near Sonpur has 2,300 farmer members. It provides loans for agricultural implements, cultivation, trade, fishery, house construction, and other needs. Once loans are repaid, the funds are reused for further lending.