



## INDIAN SCHOOL AL WADI AL KABIR

<b>Class: X</b>	<b>Department: Social Science</b>	<b>Sub: ECONOMICS</b>
<b>Chapter-3</b> <b>Question Bank:3</b>	<b>Topic: MONEY AND CREDIT</b>	<b>Year: 2023-24</b>

1	<p><b>Define Barter System with example.</b></p> <p>Ans.</p> <ul style="list-style-type: none"><li>• Barter system is a system where goods are exchanged directly without the use of money.</li><li>• Double coincidence of wants is an essential feature of 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.</li><li>• For example: - A shoe manufacturer wants to sell shoes and buy wheat. 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.</li></ul>
2	<p><b>How does money solve the problem of double coincidence of wants? Explain with an example.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>What was the shortcoming of the barter system that led to the evolution of money as a medium of exchange? Explain.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>How can money easily exchange it for goods or services? Give an example to explain.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Do you think money makes it easier to exchange things? Explain with the help of an example.</b></p> <p>Ans.</p> <ul style="list-style-type: none"><li>• Double coincidence of wants is an essential feature of a barter system where goods are directly exchanged without the use of money.</li><li>• In contrast, in an economy where money is in use, money eliminates the need for double coincidence of wants.</li><li>• A person holding money can easily exchange it for any commodity or service that he or she might want.</li><li>• For example: - It is no longer necessary for the shoe manufacturer to look for a farmer who will buy his shoes and at the same time sell him wheat. Once he has exchanged his shoes for money, he can purchase wheat or any other commodity in the market.</li></ul>
3	<p><b>Elucidate the developments in the forms of currency since early times.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>"Focuses of currency have undergone several changes since early times." Elucidate</b></p> <p>Ans.</p> <ul style="list-style-type: none"><li>• Barter system was the earliest method to buy and sell goods.</li><li>• Before the introduction of coins, a variety of objects were used as money like grains and cattle.</li><li>• Thereafter came the use of metallic coins-gold, silver, copper coins.</li><li>• Modern forms of money include currency- paper notes and coins, and deposits with banks.</li></ul>

4	<p><b>What are the modern forms of money? Why is it accepted as a medium of exchange?</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>“Why is modern currency accepted as a medium of exchange without any use of its own”. Find out the reason.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>“The rupee is widely accepted as a medium of exchange”. Give reasons.</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• Modern forms of money include currency- paper notes and coins, and deposits with banks.</li> <li>• It is accepted as a medium of exchange because the currency is authorised by the government of the country.</li> <li>• In India, the Reserve Bank of India issues currency notes on behalf of the central government.</li> <li>• The law legalises the use of rupee as a medium of payment that cannot be refused in settling transactions in India.</li> <li>• No individual in India can legally refuse a payment made in rupees.</li> <li>• Hence, the rupee is widely accepted as a medium of exchange.</li> </ul>
5	<p><b>How is money used in everyday life? Explain.</b></p> <p>Ans:</p> <ul style="list-style-type: none"> <li>• Money plays a central role in our daily life. It is used as a medium of exchange to carry out transactions.</li> <li>• Money buys us food, clothing, shelter and other basic necessities of life.</li> <li>• Money provides us social security.</li> <li>• It is needed to procure services like transport, education, healthcare, entertainment, recreation, and so on.</li> <li>• Money facilitates business and trade and is the basis of the working of an economy.</li> </ul>
6	<p><b>Why are the deposits in the banks called ‘demand deposits’? What are the benefits of deposits with the banks?</b></p> <p>Ans:</p> <p>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.</p> <p><b>The benefits of deposits are as follows:</b></p> <ul style="list-style-type: none"> <li>• Banks accept the deposit and pay an interest rate on the deposits.</li> <li>• Money is safe with the bank.</li> <li>• People (depositors) may withdraw the money as and when they require.</li> <li>• Depositors may make payments through cheques instead of cash.</li> </ul>
7	<p><b>Why are demand deposits considered as money?</b></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><b>How is money transferred from one bank account to another bank account? Explain with an example.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>What is a Cheque? How does it replace currency?</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• For payment through cheque, the payer who has an account with the bank, makes out a cheque for a specific amount.</li> <li>• For example: - A shoe manufacturer, M. Salim has to make a payment to the leather supplier and writes a cheque for a specific amount. This shoe manufacturer instructs his bank to pay this amount to the leather supplier. The leather supplier takes this cheque, and deposits it in his own account in the bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is complete without any payment of cash.</li> <li>• The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.</li> </ul>
9	<p><b>How do banks mediate between those who have surplus money and those who need money?</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it.</li> <li>• Banks accept deposits from people who have surplus money, paying interest on these deposits.</li> <li>• The banks use the major portion of the deposits to extend loans to those who need money.</li> <li>• Banks charge a higher interest rate on loans than what they offer on deposits.</li> <li>• In this way banks mediate between those who have surplus money (the depositors) and those who need money (the borrowers).</li> </ul>
10	<p><b>How do the deposits with banks become their source of income?</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>What determines the main source of income of the bank?</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• Banks accept deposits from people who have surplus money, paying interest on these deposits.</li> <li>• The banks use the major portion of the deposits to extend loans to those who need money and charge interest rate on it.</li> <li>• Banks charge a higher interest rate on loans than what they offer on deposits.</li> <li>• The difference between what is charged from borrowers and what is paid to depositors is their main source of income.</li> </ul>
11	<p><b>What is a credit? What comprises 'terms of credit'?</b></p> <p>Ans:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Interest rate, collateral, documentation requirement and mode of repayment together comprise terms of credit.</li> </ul>

12	<p><b>What is collateral? Why do banks ask for collateral while giving credit to a borrower?</b>  <b>Ans:</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>
13	<p><b>“Whether credit will be useful or not, depends upon the situation.” Give two different examples in support of this statement.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>“Credit is useful as well as harmful, it depends on the risk involved.” Support the statement with examples.</b>  <b>Ans.</b>  It is true to say that the usefulness of credit depends on the situation.  <b>Positive role of credit: -</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• For example: Salim, a shoe manufacturer has received an order from a large trader for 3,000 pairs of shoes to be delivered in a month time. To complete production on time, he obtained loans from two sources. At the end of the month, he is able to deliver the order, make a good profit, and repay the money that he had borrowed. In this situation credit plays a positive role and the borrower is able to improve his condition by increasing his earnings.</li> </ul> <p><b>Negative role of credit: -</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• For example: - Swapna, a small farmer, takes a loan from the moneylender to meet the expenses of cultivation, hoping that her harvest would help repay the loan. But, she is unable to repay the moneylender and the debt grows over the year into a large amount. Next year, she takes a fresh loan for cultivation. It is a normal crop this year. But the earnings are not enough to cover the old loan. She is caught in debt. She has to sell a part of the land to pay off the debt. In this case, she is clearly much worse off than before and pushes the person into a debt trap.</li> </ul>
14	<p><b>When does credit push the borrower into a debt-trap? Explain with the help of an example.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>In situations with high risks, credit might create further problems for the borrower. Explain.</b>  <b>Ans.</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• For example: - Swapna, a small farmer, takes a loan from the moneylender to meet the expenses of cultivation, hoping that her harvest would help repay the loan. But, she is unable to repay the moneylender and the debt grows over the year into a large amount.</li> </ul>

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15 **How does credit play a vital and positive role? Explain with an example.**  
**OR**  
**Give an example to show how credit can play a positive and vital role in the life of a borrower.**  
 Ans.

- 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 has received an order from a large trader for 3,000 pairs of shoes to be delivered in a month time. To complete production on time, he obtained loans from two sources. At the end of the month, he is able to deliver the order, make a good profit, and repay the money that he had borrowed. In this situation credit plays a positive role and the borrower is able to improve his condition by increasing his earnings.

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

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><b>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?</b></p> <p>Ans: Dhananjay will be able to get a loan from a formal source.</p> <p>Arguments: -</p> <ul style="list-style-type: none"> <li>• Dhananjay is a government employee and belongs to a rich household.</li> <li>• He has the capacity to repay the loan within a given frame of time.</li> <li>• Since he is well-off, he has enough collateral which he can use as a guarantee to the bank until the loan is repaid.</li> </ul>
19	<p><b>In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Which government body supervises the functioning of formal sources of loans in India? Explain its functioning.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Explain why the supervision of the functioning of formal sources of loan is necessary?</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Explain the significance of The Reserve Bank of India in the Indian economy.</b></p> <p>Ans. The Reserve Bank of India is the apex institution of India's monetary system, supervising the functioning of formal sources of credit as:</p> <ul style="list-style-type: none"> <li>• It monitors that the banks maintain the required cash balance with them.</li> <li>• It supervises that the banks give loans not just to profit making businesses and trade but also to small cultivators, small scale industries etc.</li> <li>• 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.</li> <li>• It issues guidelines for fixing rate of interest on deposits and lending by banks.</li> </ul>
20	<p><b>Why is cheap and affordable credit crucial for the country's development? Explain with reasons.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Modern banking system plays an important role in the country's economic development. Briefly explain.</b></p> <p>Ans. Cheap and affordable credit is crucial for the country's development because:</p> <ul style="list-style-type: none"> <li>• More lending would lead to higher incomes and encourage people to invest in agriculture, business and small industries.</li> <li>• This led to an acceleration of economic activity.</li> <li>• Cheap credit would also follow weaker sections of society to access the formal sector of lending and get rid of informal money lenders.</li> <li>• Affordable credit would also end the cycle of debt trap.</li> <li>• Cheap and easy forms of credit would inspire better investment in technology and thus increase competition.</li> </ul>

21	<p><b>Why is it necessary for banks and co-operatives to increase their lending in rural areas? Explain.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Why is there a need to expand the formal sources of credit in India?</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Informal sources are not under any supervision from any authorized institution. They behave arbitrarily in terms of giving loans and setting terms of credit.</li> <li>• The rich have better access to formal sources whereas the poor are forced to depend on informal sources.</li> <li>• Formal sources of credit can help people in rural areas to avail other benefits like cold storage facilities, subsidized seeds and other agricultural inputs.</li> <li>• In short, it is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.</li> </ul>
22	<p><b>“The credit activities of the informal sector should be discouraged.” Support the statement with arguments.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Describe the bad effects of informal sources of credit on borrowers.</b></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"> <li>• The informal sources of credit include moneylenders, traders, lenders, relatives, and friends.</li> <li>• The informal sources of credit exploit the people by charging high rate of interest. This makes the cost of borrowing higher.</li> <li>• Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan. Hence, borrowers have less income left for themselves.</li> <li>• In certain cases, the amount to be repaid is greater than the income of the borrower. This could lead to increasing debt and debt trap.</li> <li>• There is no one to stop them from using unfair means to get their money back.</li> <li>• They keep no records of the transactions and harass the poor borrowers.</li> <li>• Those people who wish to start their own business by borrowing may not be able to do so due to this high cost.</li> </ul>
23	<p><b>In India, about 80 percent of farmers are small farmers, who need credit for cultivation.</b></p> <p><b>(i) Why might banks be unwilling to lend to small farmers?</b></p> <p><b>(ii) What are the other sources from which the small farmers can borrow?</b></p> <p>Ans.</p> <p>(i) Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents them from getting bank loans.</p> <p>(ii) The other sources through which the farmers can take loan from are the cooperative society, Self- Help Groups and informal sources like moneylenders, traders etc.</p>

24	<p><b>“Poor households still depend on informal sources for credit”. Why?</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>What are the reasons which prevent the poor from getting bank loans?</b></p> <p>Ans.</p> <ul style="list-style-type: none"> <li>• Banks are not present everywhere in rural areas.</li> <li>• Bank loans require proper documentation and collateral which is rarely available with poor households.</li> <li>• Informal lenders like money lenders know the borrowers personally and are often willing to give a loan without collateral.</li> <li>• The borrowers, if necessary, approach the moneylenders without paying their earlier loans.</li> </ul>
25	<p><b>Explain the role of Self-Help Groups (SHGs) in rural society.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>What is the basic objective of ‘Self Help Groups’? How do they work? Describe any four advantages of ‘Self Help Groups’ for the poor.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>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.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>Self-Help Groups can help in solving the problem of credit in rural areas. Explain.</b></p> <p style="text-align: center;"><b>OR</b></p> <p><b>In what ways do Self-Help Groups help the rural sector of the economy?</b></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> <p><b><u>Advantages of ‘Self Help Groups’ are as follows:</u></b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• All important decisions regarding loan, purpose, amount of interest, non-payment of loan are taken by the group members.</li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>