

Money and Credit (CH-3) Important Questions Class 10 Social Science (Economics) Chapter 3

Very Short Answer Type Questions (1 Mark Each)

Q.1 Suppose you are living in ancient times, when money is not accepted as medium of transaction. What kind of problem you will find while purchasing and selling the things?

Ans. Double coincidence of Wants

Q.2 What was used as money in early ages in India?

Ans. Grains and Cattles

Q.3 Bharti has doubt that why one cannot refuse a payment made in rupees in India?

Ans. It is accepted as a medium of exchange. The currency is authorized by the government of the country.

Q.4 Which currency is used as medium of exchange at International Level?

Ans. Dollar

Q.5 In India, who is authorized to issue notes and currency?

Ans. Reserve Bank of India

Q.6 What are the demand deposits?

Ans. People deposit their money in the bank as it earns interest. Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

Q.7 What do the banks do with the deposits which they accept from the public?

Ans.

- Banks keeps only small proportions (15percent) of their deposits as cash with themselves.
- Major portion of money deposits are used to extend loans.

Q.8 What is, collateral?

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

Q.9 How do deposits with banks become their source of income?

Ans. Banks charge a higher interest rates on loans than what they offer on deposits. The difference of interest is the main source of income for the bank

Q.10 Why a loan from the Informal sector is costlier than the formal sector?

Ans. The interest rate is higher.

Long Answer Type Questions (3 or 5 MARKS EACH)

Q.1 Analysis of the work of the Reserve Bank of India?

Ans.

- Issue the currency on behalf of Government of India.
- Issues guidelines regarding working culture of Bank and SHG.
- Give directions regarding terms and interest on credits
- To provide feedback regarding monetary policies to government of India.
- RBI holds a part of the cash reserve of the bank

Q.2 How do formal and informal sources of credit differ from each other?

Ans.

Formal sector

- Rate of interest is lower.
- Collateral is must for getting loan.
- RBI supervises them.
- More documentation is required, It involves many formalities.
- EX.: Banks and co-operatives

Informal sector

- Higher rate of Interest.
- Ready to give loans without any collateral too.
- No organization to supervise them.
- Less documentation, less formalities.
- Examples: Moneylender, traders, friends, retailers and so on.

Q.3 What is credit? How can credit be both an asset as well as a debt trap?

Ans. Credits refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.

- Credit as an asset: During the festival season, a shoe manufacturer Salim has received an order of making shoes in bulk, within a month's time. To complete production, he hired extra workers and has to purchase the raw materials. He asks the supplier to supply leather now and, promise to pay him later. Then he took some advance payment from the trader. By the end, of the month, he is able to deliver the order, make a good profit and repay the money he had borrowed.
- Credit as debt trap: A farmer Swapna picks up loan from a moneylender to meet the expenses of cultivation. But unfortunately the crop is hit by the pests and fails. So, she is unable to repay the loan and debt grows larger with interest.
- In Salim's case credit plays a vital and positive role, whereas in Swapna's case credit pushes the borrowers into a situation from which recovery is painful.

Q.4 What are the terms of credit? How it may vary for person to person?

Ans.

- Every loan agreement specifies an interest rate which the borrower must pay to the lender along with repayment of the principal.
- In addition, lender may demand collateral, i.e., as asset that the borrower owns and uses this as a guarantee until the loan is repaid.
- If the borrower fails to repay the loan, the lender has the right to sell the collateral to obtain payment.
- Terms of credit comprise interest rate, collateral and locumentation requirement, and the mode of repayment.

Q.5 How is the concept of Self Help Group important for poor people? Give your view points.

Ans.

- SHG's basic idea is to provide financial resource for the poor through organizing the rural poor especially women, into small Help Groups.
- It organizes the rural poor, especially women, into small Self Help Groups.
- It collects saving of the members.
- it provides loans without collateral.
- It provides timely loans at reasonable rate of interest.
- It also provides a platform to discuss various social issue.

Q.6 The credit activities of the informal sector should be discouraged. Support your statement with relevant arguments

Ans.

- Informal lenders charge very high interest on their loans.

- There are no boundaries and restrictions.
- In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrowers.
- This could lead to increasing debt trap, therefore the credit activities of the informal sector should be discouraged.

Q.7 Why the formal or informal sector does asks for collateral?

Ans. Lenders may demand collateral or an asset that the borrower owns to use it as a guarantee until he repays the loan. It may be sold if the borrower is not able repaid.

Q.8 How do farmers gets into debts trap?

Ans.

- Failure of the crop makes loan repayment impossible,
- Downfall of crop prices also makes loan repayment impossible.
- Higher interest makes life difficult. Credit in such a condition pushes the borrowers into a situation from which recovery is painful and they get into the debt trap.

Q.9 Review any three merits and any two demerits of ‘formal sector of credits’ in India.

Ans.

Merits

- Helps to meet the working capital needs of production.
- Helps in completing production on time.
- Low interest rate.
- Helps in increasing earnings.

Demerits

- Difficulty in obtaining loans.
- Collateral issues.
- Documentation could be a problematic issue for few

Q.10 What are the reasons why the banks might not be willing to lend to certain borrowers?

Ans.

- Banks require proper and legal documentations and collateral as security against loans. The borrowers who have not repaid previous loans, the banks might not be willing to lend them further.
- Those entrepreneurs, who are going to invest in a business with high risks, the might not be willing to lend money.