

For more <https://www.matrixstudies.com> or <https://www.youtube.com/@MatrixStudies>



1. In situations with high risks, credit might create further problems for the borrower. Explain.

If a borrower is unable to earn enough income due to crop failure or business loss, they may be unable to repay the loan. This leads to increased debt, high interest, and possibly loss of property or assets.

2. How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Money acts as a medium of exchange and eliminates the need for two people to want exactly what the other offers at the same time.

Example: A shoemaker can sell shoes to anyone for money and use that money to buy wheat from any wheat seller.

3. How do banks mediate between those who have surplus money and those who need money?

Banks accept deposits from people with surplus money and lend these funds to people who need money for investment or consumption, charging interest on loans and paying interest on deposits.

4. Look at a 10 rupee note. What is written on top? Can you explain this statement?

“It is written: Reserve Bank of India / Guaranteed by the Central Government / I promise to pay the bearer the sum of Ten Rupees.”

This means the note is a legal tender, and the RBI owes the bearer Rs 10, backed by the central government's guarantee.

5. Why do we need to expand formal sources of credit in India?

Formal sources (like banks) provide loans at lower interest rates, with clear terms and protection, reducing dependence on exploitative moneylenders and supporting economic development.

6. What is the basic idea behind the SHGs for the poor? Explain in your own words.

For more <https://www.matrixstudies.com> or <https://www.youtube.com/@MatrixStudies>



SHGs (Self Help Groups) are small groups (usually women) who pool savings, provide loans to members, support each other, and eventually gain better access to formal loans by building collective credibility.

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

- Lack of collateral
- Irregular income or unstable job
- Poor creditworthiness/history
- High risk of default

8. In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

RBI controls lending and deposit rates, monitors banks' cash reserves, audits lending practices, and inspects records to ensure banks are safe and protect depositors' interests, and maintain the country's financial stability.

9. Analyse the role of credit for development.

Credit enables people (farmers, entrepreneurs) to invest in agriculture, business and education, leading to increased production, employment, incomes and overall economic growth.

10. Manav needs a loan to set up a small business. On what basis will Manav decide whether to borrow from the bank or the moneylender? Discuss.

He'll consider factors like interest rates (banks are lower), ease of getting the loan, collateral requirements, repayment terms, risk of exploitation, and transparency. Banks are preferable if accessible and requirements can be met.

11. In India, about 80 per cent of farmers are small farmers, who need credit for cultivation.

(a) Banks may not lend due to lack of collateral, uncertain income, or poor

For more <https://www.matrixstudies.com> or <https://www.youtube.com/@MatrixStudies>



credit history.

- (b) Other sources: Moneylenders, relatives, traders, SHGs, cooperatives.
- (c) Example of unfavourable term: Farmer borrows at very high interest; if he cannot repay, lender can take away his land.
- (d) Solutions: Expand SHGs, cooperatives, government subsidies, easier collateral conditions, lower interest loans for small farmers.

12. Fill in the blanks:

- (i) Majority of the credit needs of the **poor** households are met from informal sources.
- (ii) **High** costs of borrowing increase the debt-burden.
- (iii) **Reserve Bank of India** issues currency notes on behalf of the Central Government.
- (iv) Banks charge a higher interest rate on loans than what they offer on **deposits**.
- (v) **Collateral** is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

13. Choose the most appropriate answer.

- (i) In a SHG most of the decisions regarding savings and loan activities are taken by
 - (b) **Members**
- (ii) Formal sources of credit does not include
 - (c) **Employers**