

CBSE Class-10 Subject Social Science

NCERT Solutions

Chapter - 3

Economics - Money and Credit

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

Answer: This statement is true "In situations with high risks, credit might create further problems for the borrower". This is also known as a debt-trap. Taking credit involves an interest rate on the loan and if this is not paid back, then the borrower is forced to give up his collateral or asset used as the guarantee, to the lender. If a farmer takes a loan for crop production and the crop fails, loan payment becomes impossible. To repay the loan the farmer may sell a part of his land making the situation worse than before. Thus, in situations with high risks, if the risks affect a borrower badly, then he ends up losing more than he would have without the loan.

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

Answer : In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature. By serving as a medium of exchanges, money removes the need for double coincidence of wants and the difficulties associated with the barter system. For example, it is no longer necessary for the farmer to look for a book publisher who will buy his cereals at the same time sell him books. All he has to do is find a buyer for his cereals. If he has exchanged his cereals for money, he can purchase any goods or service which he needs. This is because money acts as a medium of exchange.

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

Answer : 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.

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

Answer : The following words are written on the top of a 10 rupee note:

Reserve Bank Of India

Guaranteed by the Central Government of India

I promise to pay the bearer the sum of Ten Rupee

A 10 rupee note is acceptable as a medium of exchange because it is authorized by the government of India. In India, Reserve Bank of India issues currency notes on behalf of the central government. The statement means that the currency is authorized or guaranteed by the Central Government. That is, Indian law legalizes the use of rupee as a medium of payment that can not be refused in setting transaction in India.

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

Answer : We need to expand formal sources of credit in India due to:

- To reduce dependence on informal sources of credit because the latter charge high interest rates and do not benefit the borrower much.
- Cheap and affordable credit is essential for country's development. The formal sector still meets only about half of the total credits needs of the rural people.
- Banks and co-operatives should increase their lending particularly in rural areas. Rural borrowers depend on informal sources like moneylenders who charge them high rate of interests, which can sometimes land them into a debt-trap.

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

Answer : The basic idea behind the formation of SHGs is to create self-employment for the poor, particularly rural poor woman. They also provide timely loans at a responsible interest rate without collateral.

Thus, the main objectives of the SHGs are:

- To organize rural poor especially women into small Self Help Groups. A typical SHGs has 15-20 members.

- To collect savings of their members.
- To provide loans without collateral.
- To provide timely loans for a variety of purposes.
- To provide loans at responsible rate of interest and easy terms.
- Provide platform to discuss and act on a variety of social issues such education, health, nutrition, domestic violence etc

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

Answer : The banks might not be willing to lend certain borrowers due to the following reasons:

- Banks require proper documents and collateral as security against loans. Some persons fail to meet these requirements, particularly small farmer requiring crop loan.
- The borrowers who have not repaid previous loans, the banks might not be willing to lend them further.
- The banks might not be willing to lend those entrepreneurs who are going to invest in the business with high risks.
- One of the principle objectives of a bank is to earn more profits after meeting a number of expenses. For this purpose it has to adopt judicious loan and investment policies which ensure fair and stable return on the funds.

Question 8. In what ways does the Reserve Bank of India supervise the functioning of banks?

Why is this necessary?

Answer: The Reserve Bank of India supervises the functions of banks in a number of ways:

- RBI checks that the bank actually maintain a minimum cash balance out of the deposit they receive. Currently this is 15%.
- RBI observes that the banks give loans not just to profit making businesses and traders but also to small cultivators, small scale industries, small borrowers etc.
- The commercial banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate etc.

This is necessary to ensure equality in the economy of the country and protect especially small depositors, farmers, small scale industries, small borrowers etc. Further, RBI monitoring ensures that banks do not loan more than they are supposed to, as such an action can create a crisis situation.

Question 9. Analyse the role of credit for development.

Answer: Cheap and affordable credit plays a crucial role for the country's development. There is a huge demand for loans for various economic activities. The credit helps people to meet the on going expenses of production and thereby develop their business. Many people could then borrow for a variety of different needs. They could grow crops, do business, set up industries etc. In this way credit plays a vital role in the development of a country.

Question 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.

Answer: Manav will decide whether to borrow from the bank or the money lender on the basis of the following terms of credit:

- Rate of interest
- Requirements availability of collateral and documentation required by banker.
- Mode of repayment. The penalty in case of default in repayment.

Depending on these factors and of course, easier terms of repayment, Manav has to decide whether he has to borrow from the bank or the moneylender.

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

(a) Why might banks be unwilling to lend to small farmers?

(b) What are the other sources from which the small farmers can borrow?

(c) Explain with an example how the terms of credit can be unfavourable for the small farmer.

(d) Suggest some ways by which small farmers can get cheap credit.

Answer: (a) Bank loans require proper documents and collateral as security against loans. But most of the times the small farmers lack in providing such documents and collateral. Besides, at times they even fail to repay the loan in time because of the uncertainty of the crop. So, banks might be unwilling to lend to small farmers.

(b) Apart from bank, the small farmers can borrow from local money lenders, agricultural traders, big landlords, cooperatives, SHGs etc.

(c) The terms of credit can be unfavorable for the small farmer which can be explained by the following - Ramu, a small farmer borrows from a local moneylender at a high rate of interest i.e. 3 per cent to grow rice. But the crop is hit by drought and it fails. As a result Ramu has to sell a part of land to repay the loan. Now his condition becomes worse than before.

(d) The small farmers can get cheap credit from the different sources like – Banks, Agricultural Cooperatives, and SHGs.

Question 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.

Question 13. Choose the most appropriate answer.

(i) In a SHG most of the decisions regarding savings and loan activities are taken by

(a) Bank.

(b) Members.

(c) Non-government organisation.

Answer : (b) Members.

(ii) Formal sources of credit does not include

(a) Banks.

(b) Cooperatives.

(c) Employers.

Answer : (c) Employers