NCERT SOLUTIONS

CLASS - 10th



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Class : 10th
Subject : Social-Science-Economics
Chapter : 3
Chapter Name : Money And Credit

Q1 How does the use of money make it easier to exchange things?

Answer. The use of money makes it easier to exchange things because
It solves the problem of double coincidence of wants.
it is accepted as a medium of exchange.
it serves as a unit of value.

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Q2 Can you think of some examples of goods / services being exchanged or wages being paid through barter?

Answer. In rural areas, usually food grains are exchanged far other crops in some cases. In even some government schemes, labourers are paid not in cash but in kind, e.g., 5 kg of wheat per day of work

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Q1 M. Salim wants to withdraw Rs 20,000 in cash for making payments. How would he write a cheque to withdraw money?

Answer. DIY

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Q2 Tick the correct answer.
After the transaction between Salim and Prem,
(i) Salim’s balance in his bank account increases, and Prem’s balance increases.
(ii) Salim’s balance in his bank account decreases and Prem’s balance increases.
(iii) Salim’s balance in his bank account increases and Prem’s balance decreases.

Answer. (iii) Salim's balance in his bank account increases and Prem's balance decreases.

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Q3 Why are demand deposits considered as money?

Answer. Demand deposits are considered as money, because they can be withdrawn when required

and the money withdrawn can be used for making payments.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.

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Q1 Fill the following table.

	Salim	Swapna
Why did they need credit?		
What was the risk?		
What was the outcome?		

Answer.

	Salim	Swapna
Why did they need credit?	To meet the working capital needs.	To meet the expenses of cultivation.
What was the risk?	No or little unknown risk.	Risk of crop failure.
What was the outcome?	Supplied the orders, earned profits and repaid the loans.	Crop failed; found herself in the debt trap.

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Q2 Supposing Salim continues to get orders from traders. What would be his position after 6 years?

Answer. If Salim continues to get orders form traders for the next six years, he can use the profits from the sales of shoes to finance his future business. Then he will not have to borrow money from any source of credit.

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Q3 What are the reasons that make Swapna’s situation so risky? Discuss factors – pesticides; role of moneylenders; climate.

Answer. The reasons for Swapna's situation being risky are
(a) Failure of crop due to either poor rainfall (climate problem) or attack on the crop by pests Pesticides will reduce or eliminate the attack by pests and good rainfall will eliminate the risk due to climate.
(b) Here the role of money lenders is important because they charge high interest rates and also will take away part of Swapna's land if she defaults on loan repayment when her crop fails. This will reduce her earning power even further in the future

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Q1 Why do lenders ask for collateral while lending?

Answer. Lenders ask for collateral while lending because if payment of interest and repayment of the principal are not made on time, as the last resort the lenders can sell the collateral assets and recover their money.

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Q2 Given that a large number of people in our country are poor, does it in any way affect their capacity to borrow?

Answer. Poor have low capacity to borrow since they have no collateral to offer. As such, they cannot get any credit from formal sources of credit like banks and co-operatives. They mostly take loans from informal sources of credit like money lenders, friends, relatives, etc.

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Q3 Fill in the blanks choosing the correct option from the brackets.
While taking a loan, borrowers look for easy terms of credit. This means _____ (low/high) interest rate, _____(easy/tough) conditions for repayment, _____(less/more) collateral and documentation requirements.

Answer. low, easy, less.

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Q1 List the various sources of credit in Sonpur.

Answer. Various sources of credit in village Sonpur are
(i) Village moneylender
(ii) Traders
(iii) Landowner as moneylender
(iv) Commercial banks
(v) Krishak co-operative society

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Q2 Underline the various uses of credit in Sonpur in the above passages.

Answer. DIY

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Q3 Compare the terms of credit for the small farmer, the medium farmer and the landless agricultural worker in Sonpur.

Answer. (a) Terms of credit far small farmer
High rate of interest.
Promise to sell crops to traders at low prices as repayment of loan.

(b) Terms of credit for medium farmer
They can take loans from banks or from co-operatives who charge very low rate of interest. Loan can be paid back in the next three years.

(c) Landless agricultural workers in Sonpur
Borrower has no means to repay the loan in cash. So, he pledges to repay loans by working for the landowner
Rate of interest is high

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Q4 Why will Arun have a higher income from cultivation compared to Shyamal?

Answer. Arun gets a loan from the commercial bank at a rate of interest 5% per annum, while Shyamal gets loans from a village moneylender al an interest rate of 5% per month (i.e, 60% per annum). Arun has the capacity to pay bank loans as compared to Shyamal and gets a fresh loan in next three years. Like Shyamal he is not bound to sell his produce to the moneylenders who give a low price He can sell his produce at market rates.

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Q5 Can everyone in Sonpur get credit at a cheap rate? Who are the people who can?

Answer. Everyone cannot get credit at a cheap rate. Only the following people are able to get it
Who have some collateral. Who have organised themselves into co-operative society.
Who can fulfil the banks documentation requirements.

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Q6 Tick the correct answer.
(i) Over the years, Rama’s debt

- will rise.
- will remain constant.
- will decline.

(ii) Arun is one of the few people in Sonpur to take a bank loan because
- other people in the village prefer to borrow from the moneylenders.
- banks demand collateral which everyone cannot provide.
- interest rate on bank loans is same as the interest rate charged by the traders.

Answer. (i)(a) will rise.
(ii)(b) banks demand collateral which everyone cannot provide.

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Q7 Talk to some people to find out the credit arrangements that exist in your area. Record your conversation. Note the differences in the terms of credit across people.

Answer. DIY

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Q1 What are the differences between formal and informal sources of credit?

Answer.

Points on Which Different	Formal Sources of Credit	Informal Sources of Credit
Borrower's capability	Richer people having assets which can be pledged as collateral	Poorer people not having assets which can be pledged
Rate of interest	Reasonably low	Very high
Sources	Banks and co-operative societies	Traders,moneylenders, landowners, etc
Action on default of payment	Collateral can be confiscated and sold to recover the loan	Borrowers can be made as bonded labourers or made to part with land owned by them

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Q2 Why should credit at reasonable rates be available for all?

Answer. Credit at reasonable rates should be available for all, so that the poor people can benefit from the cheaper loans.

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Q3 Should there be a supervisor, such as the Reserve Bank of India, that looks into the loan activities of informal lenders? Why would its task be quite difficult?

Answer. There should be a supervisor far checking the loan activities of Informal lenders. However, its task is quite difficult because informal sector constitutes many people who have different kind of business of their own, besides lending. They are not registered with the government.

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Q4 Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households?

Answer. The share of the formal sector credit is higher for the richer households because the richer households are in a better position to provide collateral and other necessary documents which are required by the banks and co-operatives. Richer households have means to exert pressure an banks and co-operatives to sanction loans. Richer households have greater capacity to repay the loans compared to the poor households

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Q1 In situations with high risks, credit might create further problems for the borrower. Explain.

Answer. 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. 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.

Page : 52 , Block Name : Exercise

Q2 How does money solve the problem of double coincidence of wants? Explain with an example of your own.

Answer. Money solves the problem of double coincidence of wants by acting as a medium of exchange. Double coincidence of wants implies a situation where two parties agree to sell and buy each other's commodities., i.e., what one party desires to sell is exactly what the other party wishes to buy. Money does away with this tedious and complex situation by acting as a medium of exchange that can be used for one and all commodities. For example, if an ice-cream vendor wants a bicycle but the bicycle manufacturer wants clothes, and not ice-creams, then the vendor can use money to obtain a bicycle. He does need to adhere to the bicycle man's needs because money acts as the common medium of exchange. Similarly, the bicycle manufacturer can then use the money to buy clothes.

Page : 52 , Block Name : Exercise

Q3 How do banks mediate between those who have surplus money and those who need money?

Answer. A bank mediates between those who have surplus money and those who need money by allowing both to open accounts with it. Banks only keep about 15% of cash reserves to provide to people who come to withdraw money on a daily basis. Those with surplus money are encouraged to invest with the bank and are paid a certain rate of interest for the same. Those who need loans are required to pay an interest on their loans. The difference between payment to lenders and receipt from borrowers comprises the bank's earnings. Thus, the bank acts as a beneficiary for those with surplus money as well as those who need money.

Page : 52 , Block Name : Exercise

Q4 Look at a 10 rupee note. What is written on top? Can you explain this statement?

Answer. A ten rupee note has "Reserve Bank of India" written at the top, along with a statement "guaranteed by the central government", following it. It is a promissory note and can only be issued by the Reserve Bank of India which supervises all money-related functions in the formal sector, in India. The statement on the ten rupee bank note relates to this idea that the RBI is the central organ in the working of money-related activities.

Page : 52 , Block Name : Exercise

Q5 Why do we need to expand formal sources of credit in India?

Answer. We need to expand formal sources of credit in India for two main reasons. Firstly, to reduce dependence on informal sources of credit because the latter charge high interest rates and do not benefit the borrower much. Secondly, they will be able to provide loans to a larger group of people who trust government sanctioning more than a private loaning system.

Page : 52 , Block Name : Exercise

Q6 What is the basic idea behind the SHGs for the poor? Explain in your own words.

Answer. The basic idea behind the SHGs for the poor is to provide them with a vista for self-help in financial areas. A self-help group is a small group comprising people in the rural areas who collect their savings, and loan these out to members on an interest rate lower than that charged by the informal sector. If the SHG functions well for over a year, then it becomes eligible for loans from banks. Such loans are then used for creating self-employment opportunities for the poor. Thus, they become economically upgraded, and are not dependent on moneylenders anymore.

Page : 52 , Block Name : Exercise

Q7 What are the reasons why the banks might not be willing to lend to certain borrowers?

Answer. Banks might not be willing to lend to people who cannot provide collateral, who do not have steady earnings or jobs, and who have a history of non-repayment of loans. In such cases, banks do not have a guarantee as to whether or not the loans will be repaid by the persons concerned. It has to be understood that banks only mediate between those who have surplus

money and those who need money. Banks in fact borrow the money deposited with them, and lend it out to persons requiring money. They would thus be unwilling to advance the money to individuals from whom repayment is uncertain.

Page : 52 , Block Name : Exercise

Q8 In what ways does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?

Answer. The Reserve Bank of India monitors the amount of money that banks loan out, and also the amount of cash balance maintained by them. It also ensures that banks give out loans not just to profiteering businesses but also to small cultivators, small scale industries and small borrowers. Periodically, banks are supposed to submit information to the RBI on the amounts lent, to whom and at what rates of interest.
This monitoring is necessary to ensure that equality is preserved in the financial sector, and that small industries are also given an outlet to grow. This is also done to make sure that banks do not loan out more money than they are supposed to, as this can lead to situations like the Great Depression of the 1930s in the USA, which greatly affected the world economy as well.

Page : 53 , Block Name : Exercise

Q9 Analyse the role of credit for development.

Answer. Credit plays a crucial role in a country's development. By sanctioning loans to developing industries and trade, banks provide them with the necessary aid for improvement. This leads to increased production, employment and profits. However, caution must be exercised in the case of high risks so that losses do not occur. This advantage of loans also needs to be manipulated and kept under an administrative hold because loans from the informal sector include high interest rates that may be more harmful than good. For this reason, it is important that the formal sector gives out more loans so that borrowers are not duped by moneylenders, and can ultimately contribute to national development.

Page : 53 , Block Name : Exercise

Q10 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 needs a loan to set up a small business. Manav will decide on whether to borrow from the bank or the moneylender on the basis of various factors. Firstly, he must have a collateral or asset which can guarantee his loan. If he lacks such an asset, Manav cannot get a loan from a bank. In this scenario, he will have to go to a moneylender, even though the latter charges a higher interest rate. Secondly, if Manav is not aware of the banes of borrowing from the informal sector, he might not even consider taking a bank loan. Thirdly, if there are no banks in or near his area of residence or work, then Manav will borrow from a moneylender.

Page : 53 , Block Name : Exercise

Q11 In India, about 80 percent 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) Banks might be unwilling to lend to small farmers for lack of a collateral or asset on the part of the farmers.
(b) The other sources from which the small farmers can borrow are moneylenders, relatives or friends, self-help groups and cooperative banks.
(c) The terms of credit can be unfavourable for the small farmer if he has a bad crop, and is forced to either surrender his collateral (if he borrowed from a bank) or sell off a part of his land (if he borrowed from the informal sector), in order to repay his loan.
(d) Self-help groups and cooperative banks do not require a collateral as a guarantee; hence, they can provide cheap credit to the small farmers.

Page : 53 , Block Name : Exercise

Q12 Fill in the blanks:
(i) Majority of the credit needs of the _____households are met from informal sources.
(ii) _____costs of borrowing increase the debt-burden.
(iii) _____issues currency notes on behalf of the Central Government.
(iv) Banks charge a higher interest rate on loans than what they offer on _____.
(v) _____is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

Answer. (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.

Page : 53 , Block Name : Exercise

Q13 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.

(ii) Formal sources of credit does not include
(a) Banks.
(b) Cooperatives.
(c) Employers.

Answer. (i) (b)

(ii) (c)

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