

अभ्यास

| CLASS 10TH

SOCIAL SCIENCE

ECONOMICS | MONEY AND CREDIT

Crafted with love 

By Digraj Singh Rajput

*Money and Credit***Money**

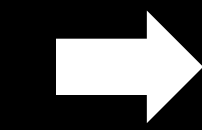
- Medium of exchange
- Modern form of Money

Credit

- Different credit situations
- Terms of credit
- Variety of credit arrangements

- Loan activities of banks
- Formal sector credit in India
- Self help groups for the poor

Money as a medium of exchange

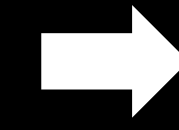


Situation before money → Barter System (Double coincidence of wants)

Economy with money → Money acted as **Medium of exchange**

Currency

Modern form of money

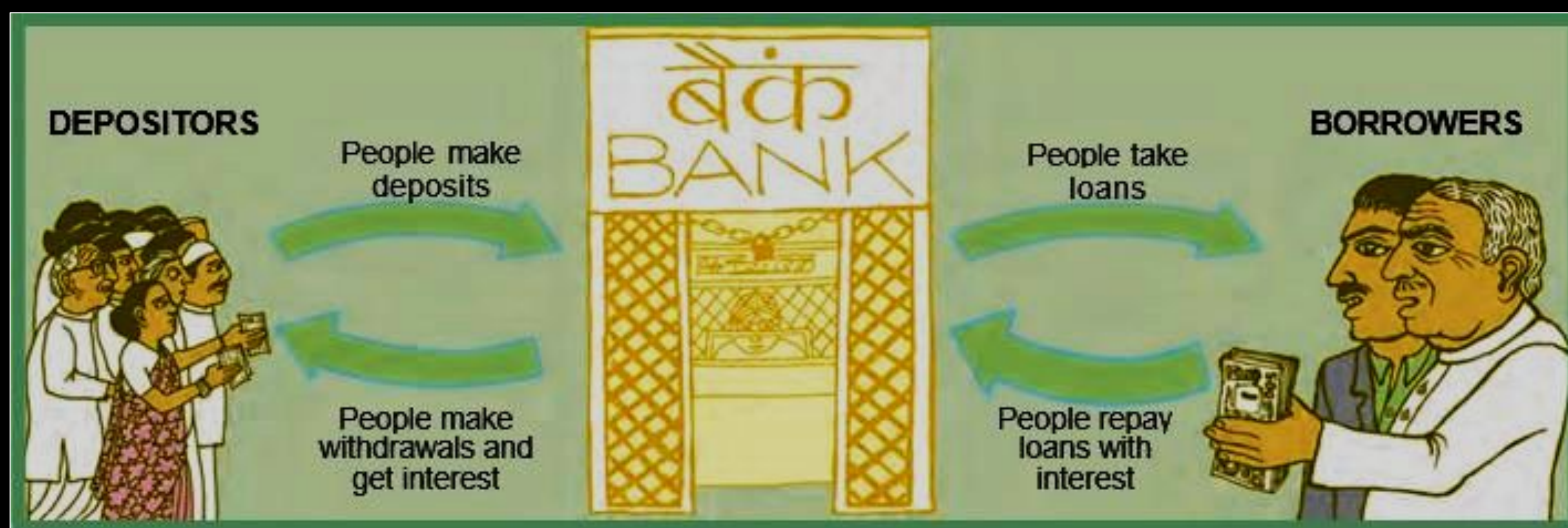


- Precious metals → paper notes and coins
- RBI and legal force to Indian rupees.
- No one can legally refuse payment made in Rupees.

Deposits with Banks

- Demand deposits
- Cheque facility
- Settle payment without cash

Loan activities of banks



- Banks charge a higher interest rate on loan than what they offer on deposits
- The difference is the income of bank.

Which among the following organisations issues the currency notes in India?

CBSE Board Paper 2023 - Set [32/5/1]

a. The Central Government of India

b. The NITI Aayog

c. The Finance Ministry

d. The Reserve Bank of India

Two different credit situations 🤔

(whether it will be useful or not it depends on the risk involved)

Positive 🤔

Credit plays a vital and positive role

Example: shoe manufacturer Salim

Negative 🤔

Credit pushes the borrower into **debt trap**

Example: Swapna and her agricultural loan

Terms of credit →

- Interest rates, documents required, collaterals and the mode of loan repayment together comprise the terms of credit.
- These terms are subjective and may differ from one lender to another. 🤔



Trick: DO CO MO internet

Read the following situation regarding credit and identify the positive impact of credit. 1

Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses and complete production on time.

Impacts:

CBSE Board Paper 2024 - Set [32/4/1]

a. The burden of credit will increase on Salim.

b. Salim's income will increase.

c. The production will decrease.

d. Salim may get stuck in a debt trap.

Variety of credit arrangements

➔ Money lenders, Bank, employer and cooperatives 🤔

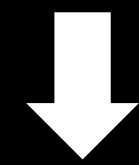
Formal sector credit in India

Formal sector

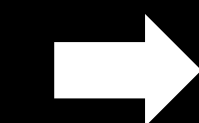
- Banks and cooperatives
- Terms of credit are genuine

Informal sector

- Money lenders, friends, relatives
- Terms of credit are exploitative



Reserve Bank of India
supervises it



Monitors that banks are maintaining cash balance.
Everyone gets the loan, Banks submit reports to RBI on how much
they are lending, to whom, at what interest rate.

No organisation to supervise informal sector lending ➔ Result ? 🤔

(Exploitation of borrower, higher interest rate, unfair means = Cost of borrowing) ↑

Higher cost of borrowing = Borrower have less income, debt trap, no enterprise will start in country.

∴ Cheap and affordable credit is crucial for country's development.

Select the formal sources of credit from the given sources and choose the correct option.

- I. Bank
- II. Moneylender
- III. Cooperatives
- IV. Businessman

CBSE Board Paper 2024 - Set [32/4/1]

a. Only I and II

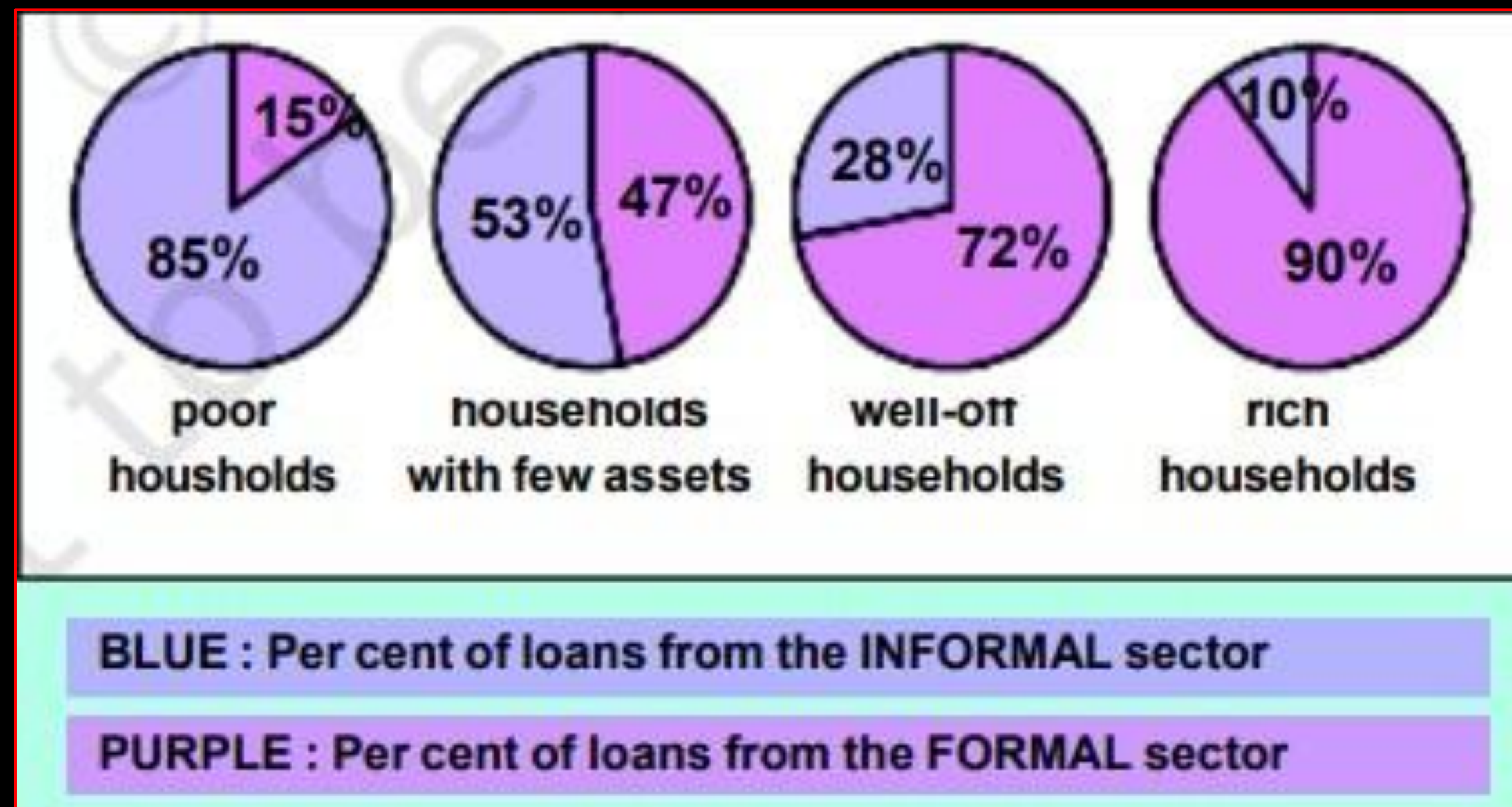
b. Only II and III

c. Only I and III

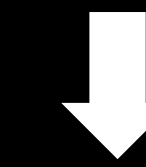
d. Only I and IV

Credit

➔ Who gets what? 🤔



Formal sector still meets only about half of the total credit needs of rural people



∴ Banks and cooperatives should increase their lending particularly in rural areas. Along with the expansion of formal sector loan, it is needed to ensure that everyone receives it.

Self Help Groups for the poor

- The moneylenders charge very high rates of interest, keep no records of the transactions and harass the poor borrower.
- The idea is to organise rural poor, in particular women, into small Self Help Groups (SHGs) and pool (collect) their savings.
- A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly.

Advantages 🤔

- Loans without collateral
- Decisions are taken by members
- Building blocks of rural poor, women become self-reliant, can discuss other issues. 🤔

Who among the following takes the decision regarding saving and loan activities in the Self Help Groups (SHGs)?

CBSE Board Paper 2024 - Set [32/4/1]

a. Manager of a Bank

b. Members of Non-Governmental Organisation (NGO)

c. Local Money Lenders

d. Members of Self-Help Group (SHG)

Double Coincidence of wants : A situation where the both parties have agreed to sell and buy each other's commodities.

Money as a medium of exchange : Money acts as an intermediate in the exchange process where it facilitates the transaction to take place.

Barter Exchange : A system of exchange where the goods are being exchanged against the goods. It depends on double coincidence of wants.

Currency: Currency is the paper notes and coins used as money today. Unlike money used in the past, such as gold, silver, or even grain and cattle, modern currency has no value or use on its own. It is accepted as a medium of exchange because it is authorized by the government of the country.

Demand Deposits : The amount deposited with the bank which the depositor can withdraw on his/her demand is known as demand deposits.

Cheque : Cheque is basically a paper instructing the bank to pay a specific amount from the person's account to that person in whose name the cheque has been issued. Payments can be made with the use of cheque instead of cash.

Collateral : Collateral is an asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment.

Terms of credit : It is a set of conditions under which a loan is given. It may include rate of interest, duration of credit and other related conditions like, collateral, documentation requirement and the mode of repayment.

Formal Credit: Formal Credit refers to loans provided by regulated institutions like banks, cooperatives, and financial organizations, which are monitored by authorities like the government or central banks.

Informal Credit: Informal Credit refers to loans from unregulated sources, such as moneylenders, friends, relatives, or employers, where the terms, like interest rates, are not controlled by any authority.

Self help group : Self help groups are small groups of 15 - 20 members who come together to pool their savings and can use this fund for themselves.

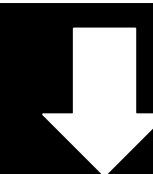
How money acts as a medium of exchange?



Money acts as a medium of exchange in the following ways:

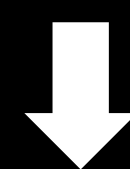
- **Eliminates Double Coincidence of Wants:** Unlike barter, where both parties need to want what the other offers, money allows transactions to happen without such a coincidence. A person can sell goods or services for money, and then use that money to buy what they need.
- **Facilitates Trade:** Money enables the exchange of goods and services by providing a common medium, making trade easier and more efficient.
- **Provides Flexibility:** Money can be used to purchase a wide variety of goods and services, meaning that people don't have to find specific items they want to exchange directly.
- **Acts as an Intermediary:** Money serves as an intermediary in the exchange process, allowing people to sell goods for money and then use that money to purchase other goods or services they need.

Explain the loan activity of banks?



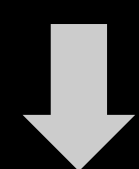
- **Deposits from the Public** - Banks accept deposits from the public. They hold a small portion of these deposits as cash to meet daily withdrawal demands from depositors.
- **Loan Provision** - The majority of the deposits are then used by banks to provide loans to individuals and businesses.
- **Intermediation Role:** Banks act as intermediaries between depositors, who have surplus funds, and borrowers, who need funds. By providing loans, banks facilitate the flow of money within the economy.
- **Interest Rate:** Banks charge a higher interest rate on loans given to borrowers than what they offer to depositors. This creates a margin between loan interest rates and deposit interest rates.
- **Main Source of Income:** The difference between the interest charged on loans and the interest paid on deposits forms the primary source of income for banks, allowing them to cover their costs and generate profits.

What do you understand by terms of credit? Explain.



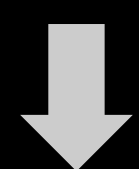
→ Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit.
Explain each point

Interest Rate



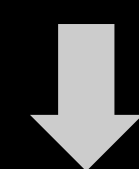
Borrower must pay to the lender along with the repayment of the principal.

Collateral



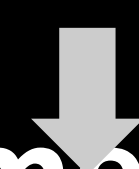
Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

Documentation requirement



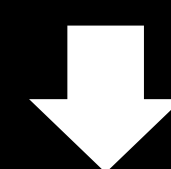
Paperwork

Mode of Payment



Installment/
Lump Sum Cash/
Gold/ Property

Explain any three reasons for the banks and cooperative societies to increase their lending facilities in rural areas.



Banks and cooperative societies need to increase their lending facilities in rural areas for the following reasons:

- **Inclusion of the poor in the formal sector:** By lending to small cultivators and rural borrowers, banks and cooperatives can help include the poorer sections in the formal credit system, reducing their dependence on informal lenders.
- **Freedom from higher interest rates:** Informal lenders often charge exorbitant interest rates. By providing loans at lower, regulated rates, formal institutions can help borrowers avoid the financial burden of high-interest loans.
- **Access to cheaper credit:** With formal sector loans, people can borrow at much lower rates, improving their financial situation. This allows them to invest in businesses, agriculture, or industries, leading to increased income and development.

Which government body supervises the functioning of formal sources of loans in India? Explain its functioning.



The Reserve Bank of India (RBI) supervises the functioning of formal sources of loans in India. Its key functions include:

- **Monitors the banks:** The RBI ensures that banks maintain required cash balances and follow proper procedures for lending.
- **Ensures loans are given to all:** It ensures that loans are provided not just to profit-making businesses, but also to small cultivators, small-scale industries, and other small borrowers.
- **Decides the rate of interest:** The RBI plays a role in regulating interest rates to maintain fairness and prevent exploitation by informal lenders.
- **Requires periodic reports:** Banks are required to submit information to the RBI about how much they are lending, to whom, and at what interest rates.

What do you understand by SHGs? Explain their functioning and contribution in eradication of poverty.



Self help groups are small groups of 15 - 20 members who come together to pool their savings and can use this fund for themselves.

Here's how they function and contribute to poverty eradication:

- **Low-Interest Loans:** Members can borrow money from the group at a much lower interest rate compared to informal lenders like moneylenders, making it easier to meet urgent needs without falling into heavy debt.
- **Bank Loans for Groups:** After consistent savings, SHGs become eligible for bank loans. The loan is given to the group as a whole and used to fund small businesses or buy essential resources like seeds, raw materials, or tools, helping members create self-employment opportunities.
- **Collective Decision Making:** The group members decide on important matters like loan amounts, purposes, and repayment terms. This collective responsibility encourages timely repayments, increasing the trust of banks in lending to SHGs despite the absence of collateral.
- **Empowerment and Social Impact:** SHGs not only make women financially independent but also serve as a platform for discussing social issues such as health, nutrition, and domestic violence, thus contributing to both economic and social upliftment in rural areas.

CBSE Board Paper 2019 - Set [32/5/1]

Why is money called a medium of exchange?

1

CBSE Board Paper 2019 - Set [32/5/1]

Why are demand deposits considered as money?

1

CBSE Board Paper 2019 - Set [32/1/1]

Why do banks or lenders demand collateral against loans?

1

CBSE Board Paper 2019 - Set [32/4/1]

Explain the meaning of 'Currency'.

3

CBSE Board Paper 2019 - Set [32/3/1]

"Credit can play a positive role." Justify the statement with arguments.

3

CBSE Board Paper 2019 - Set [32/3/1]

"Credit can play a negative role." Justify the statement with arguments.

3

CBSE Board Paper 2019 - Set [32/5/1]

Explain the three important terms of credit.

3

CBSE Board Paper 2019 - Set [32/3/1]

Why are service conditions of formal sector loans better than informal sector ? Explain.

3

CBSE Board Paper 2019 - Set [32/2/1]

Describe the importance of formal sources of credit in the economic development. 3

CBSE Board Paper 2019 - Set [32/2/1]

Describe the bad effects of informal sources of credit on borrowers. 3

CBSE Board Paper 2019 - Set [32/3/1]

Why is it necessary to increase a large number of banks mainly in rural areas ? Explain. 3

CBSE Board Paper 2019 - Set [32/4/1]

Explain the reason for necessity of supervision by the Reserve Bank of India of formal sources of loans. 3

CBSE Board Paper 2019 - Set [32/4/1]

Explain any three reasons for the banks and cooperative societies to increase their lending facilities in rural areas. 3

CBSE Board Paper 2019 - Set [32/5/1]

Explain any three functions of the Reserve Bank of India. 3

CBSE Board Paper 2020 - Set [32/3/1]

Which among the following issues currency notes on behalf of the Central Government?

1

- (a) State Bank of India
- (b) Reserve Bank of India
- (c) Commercial Bank of India
- (d) Union Bank of India

CBSE Board Paper 2020 - Set [32/5/1]

Krishna is working in a neighbouring field with very less wages. Expenses on sudden illnesses or functions in the family are also met through loans. The landowner charges an interest rate of 5 percent per month. At present she owes the landowner 5000.

Analyse the credit arrangements given above.

1

CBSE Board Paper 2020 - Set [32/5/1]

How do demand deposits have the essential features of money? Explain.

3

CBSE Board Paper 2020 - Set [32/1/1]

"Bank plays an important role in the economic development of the country." Support the statement with examples.

3

CBSE Board Paper 2020 - Set [32/1/1]

"Credit sometimes pushes the borrower into a situation from which recovery is very painful." Support the statement with examples.

3

CBSE Board Paper 2020 - Set [32/5/1]

Why do lenders ask for collateral while lending? Explain.

3

CBSE Board Paper 2020 - Set [32/3/1]

Describe the significance of the Reserve Bank of India.

3

CBSE Board Paper 2020 - Set [32/4/1]

"The use of money spans a very large part of our everyday life." Support the statement with examples. 5

CBSE Board Paper 2020 - Set [32/2/1]

"The Reserve Bank of India supervises the functioning of formal sources of loans." Support the statement with examples. 5

CBSE Board Paper 2020 - Set [32/2/1]

"The Self-Help Groups help borrowers to overcome the problem of lack of collateral security." Support the statement with examples. 5

CBSE Board Paper 2020 - Set [32/4/1]

"Self Help Groups (SHGs) are the building blocks of organisation of the rural poor." Support the statement with examples. 5

CBSE Board Paper 2022 - Set [32/4/1]

How do double coincidence of wants arise?

1

CBSE Board Paper 2022 - Set [32/4/1]

Explain the three important 'terms of Credit'.

1

CBSE Board Paper 2022 - Set [32/3/1]

Analyse the situation in which credit pushes the borrower into a situation from which recovery is painful.

2

CBSE Board Paper 2022 - Set [32/1/1]

How is 'Demand Deposit' an essential feature of money?

3

CBSE Board Paper 2022 - Set [32/1/1]

How does a bank work as a key component of the financial system? Explain.

3

CBSE Board Paper 2022 - Set [32/2/1]

Explain, why the banks do not lend credit to certain borrowers?

3

CBSE Board Paper 2022 - Set [32/1/1]

Differentiate between formal and informal sources of Credit.

3

CBSE Board Paper 2022 - Set [32/2/1]

Explain the functions of "Self Help Group".

3

CBSE Board Paper 2022 - Set [32/2/1]

Read the following source and answer the questions that follow:

3

A House Loan

Megha has taken a loan of 5 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in 10 years in monthly instalments. Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest.

1 From which source of credit Megha has taken loan?

2 Explain the terms of credit given in the source.

CBSE Board Paper 2022 - Set [32/3/1]

How does the credit vary substantially between formal and informal lenders? Explain with examples. 5

CBSE Board Paper 2022 - Set [32/3/1]

How are 'self-help groups' the building blocks of the rural poor ?
Explain with examples. 5

CBSE Board Paper 2023 - Set [32/5/1]

Which among the following organisations issues the currency notes in India?

1

- (a) The Central Government of India
- (b) The NITI Aayog
- (c) The Finance Ministry
- (d) The Reserve Bank of India

CBSE Board Paper 2023 - Set [32/2/1]

Which one of the following is the modern form of currency?

1

- (a) Paper notes
- (c) Silver coins
- (b) Gold coins
- (d) Copper coins

CBSE Board Paper 2023 - Set [32/1/1]

Which one of the following is a formal source of credit?

1

- (A) Relative
- (B) Trader
- (C) Money lender
- (D) Cooperative Society

CBSE Board Paper 2023 - Set [32/2/1]

Which one of the following categories of urban households take the highest percentage of loan from the formal sector?

1

- (a) Poor households
- (b) Households with few assets
- (c) Well-off households
- (d) Rich households

CBSE Board Paper 2023 - Set [32/6/1]

Who among the following takes the decision regarding saving and loan activities in the Self Help Groups (SHGs)?

- (A) Manager of a Bank
- (B) Members of Non-Governmental Organisation (NGO)
- (C) Local Money Lenders
- (D) Members of Self-Help Group (SHG)

CBSE Board Paper 2023 - Set [32/2/1]

"Credit pushes the borrower into a situation from which recovery is painful." Examine the statement. 2

CBSE Board Paper 2023 - Set [32/1/1]

Explain the role of banks with regard to money which they accept from the public. 3

CBSE Board Paper 2023 - Set [32/1/1]

Explain any three functions of the Reserve Bank of India. 3

CBSE Board Paper 2023 - Set [32/5/1]

How does credit play a positive and a negative role? Explain with examples. 5

CBSE Board Paper 2023 - Set [32/5/1]

What is a collateral ? Why is it a main reason to prevent the poor getting a loan from banks? Explain. 5

CBSE Board Paper 2023 - Set [32/2/1]

"Cheap and affordable credit is crucial for the country's development." Justify the statement. 5

CBSE Board Paper 2023 - Set [32/6/1]

Distinguish between formal and informal sources of credit. 5

CBSE Board Paper 2023 - Set [32/2/1]

Justify the role of 'Self Help Groups' in the rural economy. 5

CBSE Board Paper 2024 - Set [32/2/1]

Which one of the following banks in India controls the issuance of currency and regulates the credit system in the country?

1

- (A) Punjab National Bank
- (B) Indian Bank
- (C) Reserve Bank of India
- (D) State Bank of India

CBSE Board Paper 2024 - Set [32/4/1]

Assertion (A): No individual in India can legally refuse a payment made in rupees.

Reason (R): In India the rupee is authorized by the State Governments.

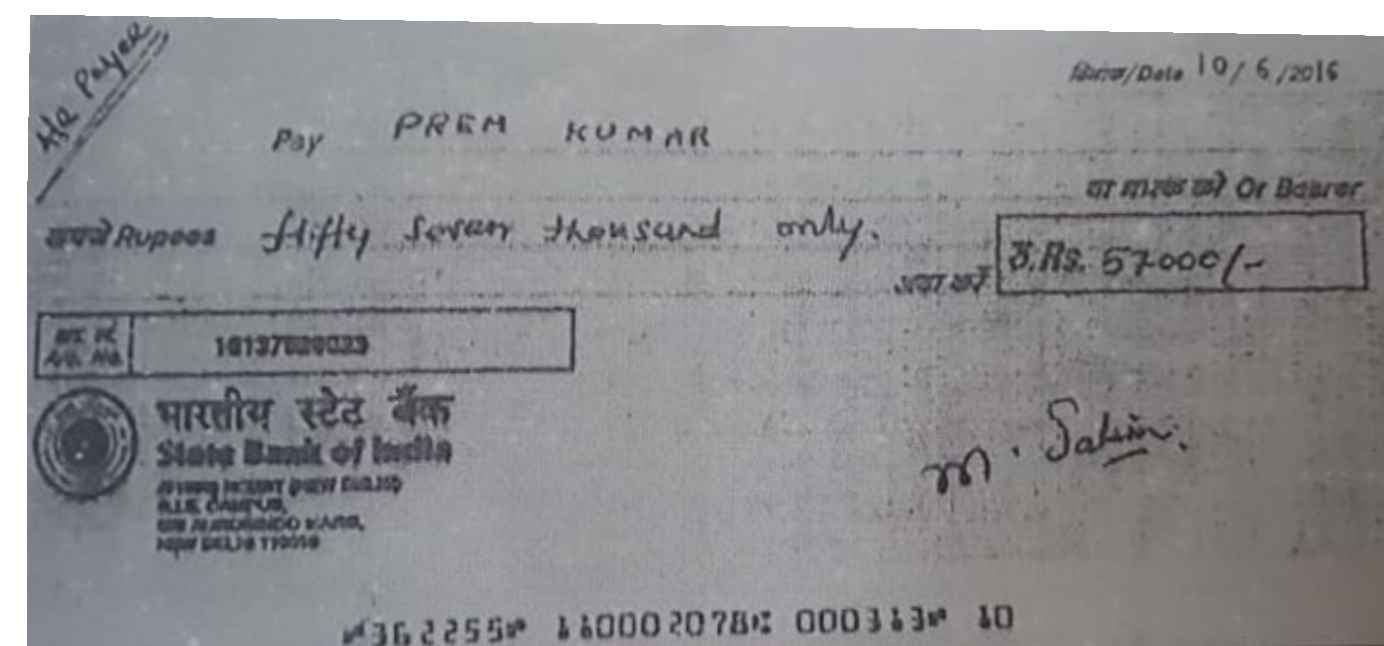
Options:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- (C) (A) is true, but (R) is false.
- (D) (A) is false, but (R) is true.

CBSE Board Paper 2024 - Set [32/3/1]

Read the image of the cheque. Identify the cheque number from the given options: 1

- (A) 362255
- (B) 110002078
- (C) 000313
- (D) 16137926023



CBSE Board Paper 2024 - Set [32/1/1]

'Self-help-groups (SHGs) in rural society serve as empowering platform towards socio-economic development.' Give arguments in support of your answer. 3

CBSE Board Paper 2024 - Set [32/1/1]

Look at the given picture carefully and infer the income of the bank. 1

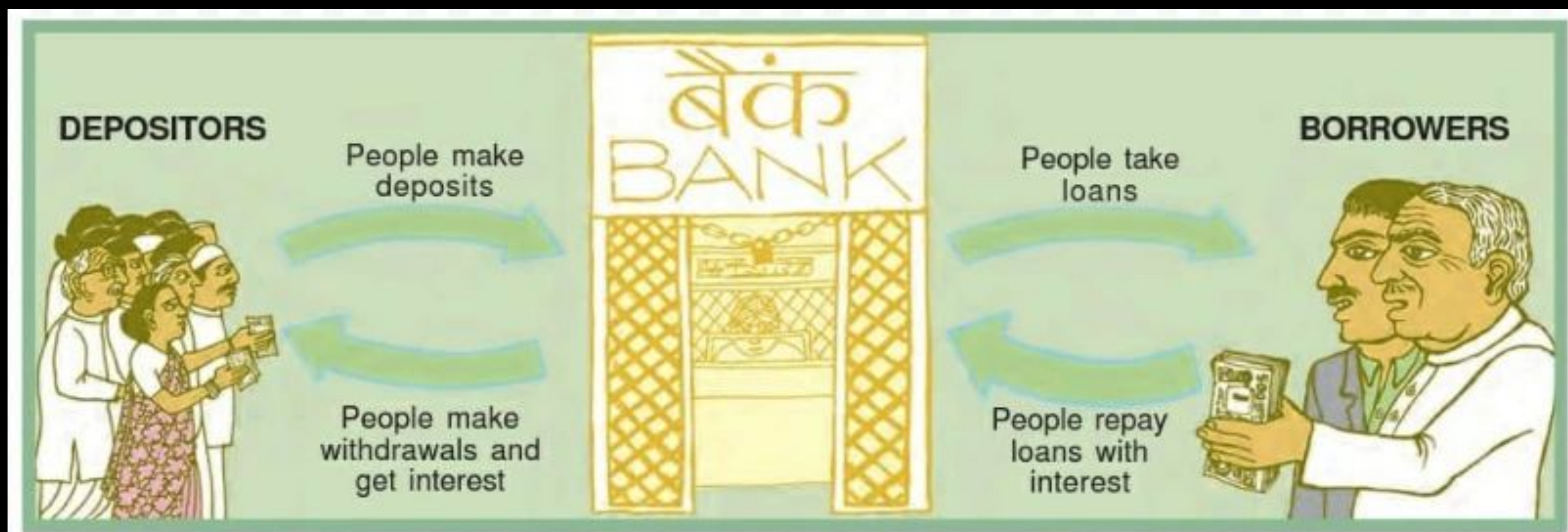
Choose the correct option from the following.

The difference between the amount deposited and borrowed by the bank to Reserve Bank of India.

The difference of amount of interest between what is charged from borrowers and what is paid to depositors.

The difference of interest rate between what is charged from borrowers and what is charged from depositor.

The difference between the amount deposited by the depositor and borrowed by the borrower.



CBSE Board Paper 2024 - Set [32/2/1]

Which of the following is the primary purpose of loan activities offered by banks? 1

- (A) To compete with other financial institutions
- (B) To generate profits for the primary sector only
- (C) To increase income of MNCs
- (D) To support economic growth

CBSE Board Paper 2024 - Set [32/5/1]

In one of the small villages, a farmer borrows money from the village moneylender at a high monthly interest rate but is not able to repay it back. Next, he borrows it from a bank at a lower interest rate. Gradually he earns and pays back the loan to the moneylender and the bank.

Which of the following best describes the role of the bank in this credit situation? 1

- (A) The bank acts as a cooperative lender.
- (B) The bank facilitates a debt-trap situation.
- (c) The bank ensures a fair exchange of goods.
- (D) The bank saves the farmer from debt-trap.

CBSE Board Paper 2024 - Set [32/4/1]

Read the following situation regarding credit and identify the positive impact of credit. 1
Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses and complete production on time.

Impacts:

- (A) The burden of credit will increase on Salim.
- (B) Salim's income will increase.
- (C) The production will decrease.
- (D) Salim may get stuck in a debt trap.

CBSE Board Paper 2024 - Set [32/1/1]

Why do lenders often require collateral before lending loan? 1
Choose the most suitable option from the following.

- (a) To lower interest rates for borrowers.
- (b) To establish personal relations.
- (c) To increase their profit margins.
- (d) To mitigate the risk of loan default.

CBSE Board Paper 2024 - Set [32/4/1]

Read the given source and answer the questions that follow: 4

Loans from Cooperatives

Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives and industrial workers cooperatives, etc. Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.

- 1) 'Cooperative society' is an example of which source of 'credit'?
- 2) Explain the contribution of Cooperative Societies in rural development.
- 3) Mention any two sources of capital for Self-Help Groups.

CBSE Board Paper 2024 - Set [32/5/1]

Read the given source and answer the questions that follow:

Loans from Cooperatives

Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives, industrial workers cooperatives, etc. Krishak Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place. Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.

- 1) How do Krishak Cooperatives' secure funds for providing loans to their members?
- 2) What are the different types of loans that 'Krishak Cooperatives offer to their members?
- 3) Why are such cooperatives desirable in the rural areas?

CBSE Board Paper 2024 - Set [32/3/1]

Which of the following is the formal source of loan in India?

1

- (A) Friends
- (B) Money-lenders
- (C) Banks
- (D) Relatives

CBSE Board Paper 2024 - Set [32/5/1]

Select the formal sources of credit from the given sources and choose the correct option. 1

- I. Bank
- II. Moneylender
- III. Cooperatives
- IV. Businessman

Options:

- (A) Only I and II
- (B) Only II and III
- (C) Only I and III
- (D) Only I and IV

CBSE Board Paper 2024 - Set [32/5/1]

Assertion (A): Rural poor families are still dependent on informal sources of credit.

Reason (R): For obtaining loan from banks, collateral and special documents are required.

Options:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- (C) (A) is true, but (R) is false.
- (D) (A) is false, but (R) is true.

CBSE Board Paper 2024 - Set [32/4/1]

Assertion (A): Banks are not ready to lend money to certain borrowers.

1

Reason (R): Some people do not have collateral.

Options:

- (A) Both (A) and (R) are true and (R) is the correct explanation of (A).
- (B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
- (C) (A) is true, but (R) is false.
- (D) (A) is false, but (R) is true.

अभय



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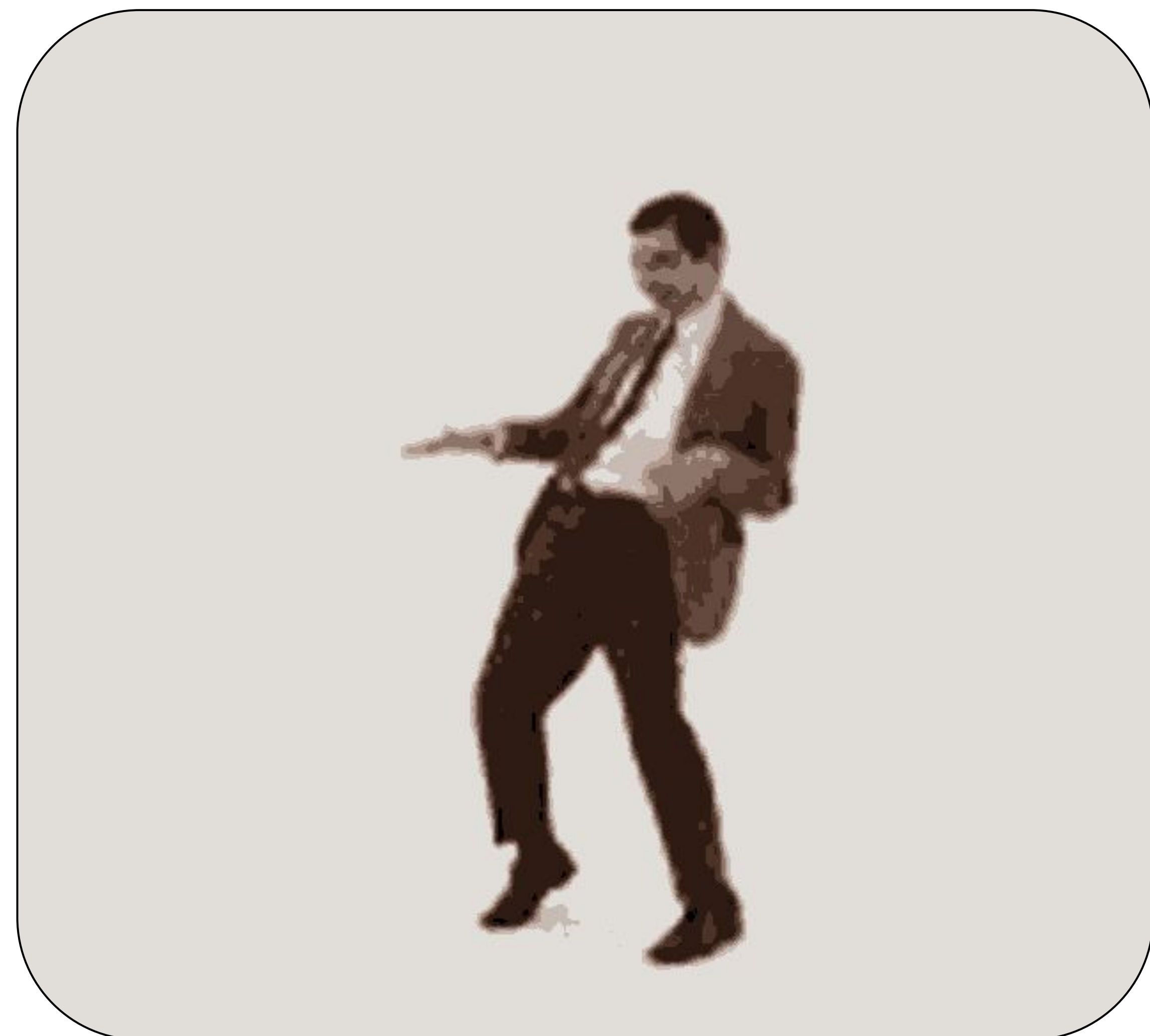
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