

NCERT Solutions for Class 10

Social Science (Economics)

Chapter 3 – Money and Credit

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

Ans: In situations with high risks, credit might create further problems for the borrower, also known as a debt-trap. Taking credit involves an interest rate on the loan, in case if this is not paid back on time, then the borrower is forced to give up his asset used as the guarantee, to the lender while taking loan. If a farmer takes a loan for crop production and it fails to produce crops, then the loan payment becomes impossible. To repay the loan, the farmer will have to sell a part of his land making the situation quite worse than before. Hence, a situation with high risks, if the risks is affecting a borrower badly, then he will end up losing more in financial terms, than he would have without the loan.

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

Ans: In a barter system, where goods are exchanged directly without the use of money, double coincidence of wants is an important and essential feature. Money Serves as a medium of exchange, it also removes the need for double coincidence of wants and the difficulties associated with the barter system. For example, now it is not necessary for a farmer to search for a book publisher who will buy his cereals and at the same time sell him books. Now, he has to find a buyer for his cereals. Farmers now can exchange their cereals for money, and can purchase any goods or services which they need.

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

Ans: Banks keep a small portion of deposits in the form of cash (15%) for themselves, to pay the depositors on demand. Banks use the major portion of these deposits to give loans to those people who need money. In this way banks mediate between those who have surplus money and those who need money.

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

Ans: “Reserve Bank of India” and “Guaranteed by the Government” are written on top.

In India, the Reserve Bank of India (RBI) issues currency in the country on behalf of the central government. This statement means that the currency is authorized and guaranteed by the Central Government. Law legalizes the use of rupee in India as a medium of payment, which cannot be refused in setting transactions in India.

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

Ans: We need to expand formal sources of credit in India because:

To reduce dependency on informal sources of credit because the latter charge high interest rates also, they do not benefit the borrower much.

- Affordable and cheap credit is essential for a country's development.
- Co-operatives and banks need to increase their lending especially in rural areas.

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

Ans: The basic objective behind the SHGs is to provide financial resources to the poor people by organizing the rural poor, particularly women, into small Self-Help Groups. They even provide loans at a reasonable rate of interest without collateral.

The main objectives of the SHGs are:

- To organize rural poor people particularly women into small Self-Help Groups.
- To collect the savings of their members.
- To provide loans without collateral.
- To provide timely loans for various purposes.
- To provide loans at responsible interest rates and easy terms.
- Provide a platform to discuss on various issues and act on a variety of social issues like education, health, nutrition, domestic violence etc.

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

Ans: The banks may not lend certain borrowers due to the following reasons:

- Banks require some necessary documents and collateral as security against loans, some persons fail to meet these requirements.
- The borrowers who did not repay their previous loans, the banks do not lend them further.
- The banks may not be willing to lend loans to those entrepreneurs who are going to invest in their business with high risks.
- One of the main objectives of a bank is to earn more profits. For this purpose, they adopt judicious loan and investment policies which guarantee fair and stable return on the funds.

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

Ans: The Reserve Bank of India supervises all the functions of banks in several ways:

- The commercial banks need to hold a part of their cash, as a reserve with their RBI. RBI ensures that the banks maintain a minimum cash balance limit, from the deposits they receive.
- RBI observes and ensures that the banks are giving loans not only to profit making businesses owners and traders, also to small industries, small scale cultivators, small borrowers etc.
- The commercial banks need to submit complete information, regarding how much they are lending, to whom, and at what interest rate etc. to the RBI.

It is required to ensure equality in the economy of the country, protect especially small depositors, farmers, small scale industries, small borrowers etc. In this process, RBI acts as the lender to the last resort to the banks.

9. Analyse the role of credit for development.

Ans: Affordable and Cheap credit is important, it plays a crucial role in the country's development. Many of us, including businessman, common people, borrow money, so there is a huge demand for loans to carry-out various economic activities. The credit helps us to fulfil the expenses required for their production which further develop their business. Now, Farmers can grow crops, businessmen can do their business, set up industries etc.

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.

Ans: On the basis of the following terms of credit, Manav will decide whether to borrow from the bank or the money lender:

- How cheap is the rate of interest the bank is giving on loan?
- Documentation required by the banker and requirements for the availability of collateral.
- How flexible is the EMI option, that is, direct cash or account transfer?
- Depending on these factors, Manav has to decide whether to borrow money from the bank or the moneylender.

11. 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?

Ans: Farmers, at times they fail to repay the loan amount on time, because of the uncertainty of the crop. Hence, banks may not be willing to lend to small farmers.

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

Ans: After banks, the small farmers may borrow money from local money lenders, agricultural traders, cooperatives, big landlords, SHGs etc.

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

Ans: The terms of credit can be unfavourable for the small farmer – For example: Ram, a small farmer borrows money from a local moneylender at 3% to grow rice. But unfortunately, the crop is hit by drought and it fails. As a result, Ram has to sell a part of his land to repay the loan. Now, the condition becomes quite worse than before.

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

Ans: The small farmers can get a credit at low interest rate from different sources like – Banks, Agricultural Cooperatives, and SHGs.

12. Fill in the blanks:

(i) Majority of the credit needs of the _____ households are met from informal sources.

Ans: poor

(ii) _____ costs of borrowing increase the debt-burden.

Ans: high

(iii) _____ issues currency notes on behalf of the Central Government.

Ans: Reserve Bank of India

(iv) Banks charge a higher interest rate on loans than what they offer on _____.

Ans: deposits

(v) _____ is an asset that the borrower owns and uses as a guarantee until the loan is repaid to the lender.

Ans: Collateral

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.

Ans: Option (b) Members.

(ii) Formal sources of credit does not include

(a) Banks.

(b) Cooperatives.

(c) Employers.

Ans: Option (c) Employers