



Vidya Bhawan balika Vidyapeeth shakti utthan aashram Lakhisarai

Revision Class-10th

(Based on N C E R T pattern)

Date:- 12.11.XX.

Economics

Money and credit

1. Why are the poor households still dependent on informal sources of credit?

Ans. Following are the main reasons for formal credit not being available to the rural poor :

- (1) There is a need for collateral or complicated paperwork which the rural poor are not capable of providing.**
- (2) The moneylenders and rich landowners continue to extend loans to defaulters even if the previous loan is unpaid.**
- (3) The banks are mostly unwilling to lend loans to small farmers because the repayment of loans is dependent on the income from farming. In the case of crop failure, repayment becomes impossible. So, the recovery from small farmers becomes difficult.**
- (4) They are hesitant and unsure about the functioning of the banks.**
- (5) They may not have access to banks in their villages.**

2. Why is it necessary for banks and co-operatives to increase their lending in rural areas? Explain.

Or

Why is there a need to expand the formal sources of credit in India?

Ans. There is a need to expand rural credit for the following reasons :

(1) To save poor from the moneylender's high rate of interest and debt-trap and unfair means to get their money back.

(2) Cheap and easily available credit can encourage self-employment like small-scale industries or business.

(3) It can lead to lower cost of production and higher incomes.

(4) The RBI supervises the functioning of formal sources of loans. It ensures that loans are given not only to the Profit-making businessmen and traders but also to small cultivators, small-scale industries, small borrowers, etc.

(5) It will contribute to the country's development.

3. What is the difference between formal sector loans and informal sector loans? Give two examples of each.

Or

Mention three points of difference between the formal sector and informal sector loans.

Ans. Following are the differences between formal sector loans and informal loans.

Formal Sector Loans	Informal Sector Loans
<p>(1) Comparatively rate of interest charged is lower than that of the informal sector loans.</p> <p>(2) RBI supervises their function of giving loans.</p> <p>(3) Collateral is required to obtain credit.</p> <p>(4) Rich urban households depend largely on formal sources of credit.</p> <p>(5) Examples: Banks and Co-operatives.</p>	<p>(1) Higher interest rates on loan are charged.</p> <p>(2) No organization is there to supervise its lending activities.</p> <p>(3) They are ready to give loans without collateral.</p> <p>(4) Poor households largely depend on informal sources.</p> <p>(5) Examples : Traders, employers, money-lenders, relatives, friends, etc.</p>

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