



Vidya Bhawan balika Vidyapeeth shakti utthan aashram Lakhisarai

Revision Class-10th

(Based on N C E R T pattern)

Date:- 15.11.XX.

Economics

Money and credit

9. What are formal sources of credit? Why do we need to expand formal sources of credit in India?

Or

Why do we need to expand formal source or credit in India? Explain any four reasons.

Or

Describe two reasons why banks and cooperative societies must increase their lending in rural areas. Give three suggestions for how it can be achieved.

Ans. (1) The formal source of credit includes a loan from banks and co-operatives.

(2) We need to expand formal sources of credit in India for the following reasons :

(i) Formal sources of credit are less risky and they charge a low rate of interest.

(ii) The Reserve Bank of India supervises the functioning of formal sources of loans. It monitors the banks in actually maintaining a cash balance.

(iii) RBI 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.

(iv) Compared to the formal lenders, most of the informal lenders charge higher interest rates. Thus, the cost to the borrower becomes much higher that leads to less income. Also, the borrowers may become victim to debt-trap. So, formal sector loans help reduce dependence on informal sources of credit.

(v) Due to the high interest rates of the informal source of credit, people who might wish to start an enterprise by borrowing, may not do so because of the high cost of borrowing.

(vi) Cheap and affordable credit by the formal sector is crucial for the country's development.

(3) (i) The bank should open its branches in villages.

(ii) The RBI should give guidelines to the bank to make loan procedure simpler.

(iii) Public awareness of the banks and cooperatives should be increased.

10. Explain the term 'debt-trap'. Why is it more rampant in rural areas ? Give two reasons.

Ans. (1) When the credit pushes the borrower into a situation from which the recovery is very painful, it is called debt-trap. For example, in the case of crop failure small or marginal farmers have to sell a portion of his/her land to repay the loan.

(2) The debt-trap is rampant in rural areas because of the following reasons :

(i) Farmers take loans for crop production, equipment, fertilizers, etc. If crop failure happens due to any reason, they become unable to pay back the loan.

(ii) There is usually an absence of any kind of support to the farmers in case of crop failure. So, they are clearly much worse off than before.

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