



Vidya Bhawan balika Vidyapeeth shakti utthan aashram Lakhisarai

Class-10th

(Based on N C E R T pattern)

Date:- 01.09.XX.

Economics

Money and credit

Question 1.

Why is it necessary for the banks and cooperative societies to increase their lending facilities in rural areas? Explain.

Answer:

Banks and Cooperatives can help people in obtaining cheap and affordable loans. This will help people to grow crops, do business, set up small-scale industries or trade in goods and also help indirectly in the country's development. They should do so, so that relatively poor people do not have to depend on informal sources of credit (money-lenders).

Question 2.

How can money be easily exchanged for goods or services? Give an example to explain.

Answer:

Money as a medium of exchange for goods and services:

A person holding money can easily exchange it for any commodity or service that he or she might want. Everyone prefers to receive payments in money and exchange the money for things they want.

For example: A shoemaker wants to sell shoes in the market and buy wheat. The shoe maker will first exchange shoes for money and then exchange the money for wheat. If the shoemaker had to directly exchange shoes for wheat without the use of money, he would have to look for a wheat growing farmer who not only wants to sell wheat but also wants to buy the shoes in exchange. Both the parties have to agree to sell and buy each other's commodities. This process is very difficult, time consuming and unhealthy.

Question 3.

“The credit activities of the informal sector should be discouraged.”

Support the statement with arguments.

Answer:

The credit activities of the informal sector should be discouraged because:

- 85% of loans taken by the poor households in the urban areas are from informal sources. There is no organisation that supervises the credit activities of lenders in the informal sector.
- Informal lenders charge very high interest on their loaner: They try to charge more and more interest on their loans as there are no boundaries and restrictions.
- Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.
- In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of borrower. This could lead to increasing debt and debt trap, therefore the credit activities of the informal sector should be discouraged.

Question 4.

Why do we need to expand formal sources of credit in India? (NCERT Question)

Answer:

- There is no organisation that supervises the credit activities of lenders in the informal sector. They lend at whatever interest rate they choose.
- No one can stop rural money-lenders from using unfair means to get their money back.
- Informal lenders charge a very high rate of interest on loans and as a result a larger part of the earnings of the borrowers and farmers are used to pay the loans.
- The amount to be repaid is often greater than income, and farmers and other borrowers in villages fall in a debt trap. Thus, it is necessary that banks and co-operatives increase their lending, particularly in rural areas, so that dependence on informal sources of credit ends.

Mr Anant kumar