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CLASS-10TH

(BASED ON N C E R T PATTERN)

Date:- 11.01.22

ECONOMICS

MONEY AND CRIDIT

Money as a Medium of Exchange

Money acts as an intermediate in the exchange process, it is called a medium of exchange. A person holding money can easily exchange it for any commodity or service that he or she might want.

Modern form of Money

In the early ages, Indians used grains and cattle as money. Thereafter came the use of metallic coins – gold, silver, copper coins – a phase which continued well into the last century. Now, the modern forms of money include currency – paper notes and coins. The modern forms of money – currency and deposits – are closely linked to the workings of the modern banking system.

Currency

In India, the Reserve Bank of India issues currency notes on behalf of the central government. No other individual or organisation is allowed to issue currency. The rupee is widely accepted as a medium of exchange in India.

Deposits in Banks

The other form in which people hold money is as deposits with banks.

People deposit their extra cash with the banks by opening a bank account in their name. Banks accept the deposits and also pay an amount as interest on the deposits.

The deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits. The payments are made by cheques instead of cash.

A cheque is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.

Loan Activities of Banks

Banks keep only a small proportion of their deposits as cash with themselves. These days banks in India hold about 15% of their deposits as cash. This is kept as a provision to pay the depositors who might come to withdraw money from the bank on any given day. Banks use the major portion of the deposits to extend loans. There is a huge demand for loans for various economic activities. Banks charge a higher interest rate on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income for banks.

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