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## शक्तिउत्थानआश्रमलखीसरायबिहार

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**Money and Banking**

Q24. How does money overcome the problems of barter system?

Ans. Money can overcome the problems of barter system in following ways:

i. Money as medium of exchange solves the barter's problem of lack of double coincidence of wants as money has separated the acts of sale and purchase.

ii. Money as measure or unit of value or a unit of account solves the barter's problem of absence of common measure of value. Money serves as a unit of value or unit of account and acts as a yardstick to measures exchange value of all commodities.

iii. Money as store of value solves the barter's problem of difficulty in storing wealth. It generalized purchasing power.

iv. Money as standard of deferred payments helps to solve the barter problem of lack of standard of deferred payment. Again, it helps to make contracts which involve future payments.

v. The use of money meant that people could sell their surplus of goods in exchange for money and use the money earned to buy their needs. During ancient wartime, currency was created as it was just too difficult for soldiers to carry around chickens and beans around to swap for what they needed.

vi. Indivisibility of goods was a major problem. Under barter, a serious problem of indivisibility of certain articles was arisen. Some articles were impossible to divide into small parts. So, that one of the trading party was compelled to give his indivisible item in full in exchange for the other's product.

vii. Difficulty in transfer of wealth was also main problem during that time. Under barter, the difficulty of transferring of a person's wealth arises. When he intend to shift his wealth like house, property, car from one place to another, because it is almost impossible to find a person in another place, who can exchange his property or wealth.

Q25. Why only a fraction of deposits is kept as Cash Reserves?

Ans. Banks operate by taking in deposits and making loans to lenders. Thus, banks can lend out some of their depositors' money, while keeping some on hand to satisfy daily withdrawals by depositors. This is called the fractional-reserve banking system. Banks keep a fraction of deposits as Cash Reserves. Any experienced banker from his or her experience, knows two things. Firstly, all the depositors do not approach the banks for withdrawal of money at the same time and also they do not withdraw the entire amount in one go. And secondly, there will be constant flow of new deposits into the banks every day. So, to meet the daily demand for withdrawal of cash, it is sufficient for banks to keep only a fraction of deposits as cash reserve. It means, if experience of the banks show that withdrawals are generally around 20% of the deposits, then it needs to keep only 20% of deposits as cash reserves (LRR).