

CLASS- 10th ECO– NOTES

TWO DIFFERENT CREDIT SITUATIONS

- Credit is an agreement in which is created when a person gives money and goods to the needy person with the promise of to repay that with some rate of interest.
- There are two types of credit situation
- In the first situation, a person borrows money for production activities with the promise to repay the loan at the end of the year when production work will be completed. and at the end of the year, he/she makes a good profit from production activities and he/ she is able to pay the amount of loan. therefore, that person becomes better off than before.
- In the second situation, a person borrows money for production activities with the promise to repay the loan at the end of the year when production work will be completed. and at the end of the year he/ she unable to repay the loan due to loss in production. for this term, he/ she come under the situation of debt trap. therefore, that person becomes worse off than before.

• TERMS OF CREDIT

- The interest rate, collateral and some documents fulfill the requirement of the terms of credit. interest rate is specified when a lender provides loan to the borrower. a borrower will have to repay the amount taken from the lenders with the amount of interest. in some case, lenders may demand collateral against loans.
- Collateral is an asset of the borrowers which is given to the lenders as security for the specified period. a lender can use the assets which are held by him as security until the amount of loan is repaid. the lender has right to sell the assets or collateral when the borrower fails to repay the amount of loan in a specified period.

• FORMAL SECTOR CREDIT IN INDIA

- There are two types of sources of credit in an economy.
- Formal sector
- Informal sector

• FORMAL SECTOR:-

- In the formal sector, loans from banks and cooperatives are included.

• INFORMAL SECTOR:-

- In the informal sector, loans from money lenders. traders, employers, relatives and friends are included.
- As we know that major portion of the deposited money is provided to those people who are needy of money for economic activities in india reserve bank of india is supervised the functioning of loan activities in formal sectors. in india, the rate of interest in informal sector is greater than the rate of interest informal sector. rate of interest in formal sector is supervised by the legal authorities.
- In the informal sector, the rate of interest is supervised by moneylenders, traders, employers who are provided money. the rate of interest is varying from person to person. there is no organization for supervising loan in informal sector lenders can use any method to get bank their money from the borrowers. sometimes. the incomes of the borrowers. become less compare than the amount which has to pay due to the high rate of interest.
- In this chart, we can see sources of credit in rural areas are mostly dependent on professional and agriculture moneylenders in case of informal sources of loan. for the development of a country, cheap and affordable credit is crucial. therefore, the government should facilitate formal sources of credit basically in rural areas.

THE END.

Last modified: 11:10