

CBSE Test Paper - 05
Chapter - 26 Money and Credit

1. Why is it difficult taking a loan from bank than taking a loan from informal source? **(1)**
 - a. Bank does not know the borrower
 - b. Bank loan requires proper documents and collateral.
 - c. Banks often harrass the borrowers
 - d. Informal sources provide loans at cheaper rates
2. What is credit? **(1)**
 - a. Depositing money in bank
 - b. Purchasing goods for cash
 - c. Borrowing money
 - d. Giving some one with no expectation of return i.e. gift
3. The exchange of goods for goods is known as **(1)**
 - a. e-banking
 - b. banking
 - c. barter exchange
 - d. promissory bills
4. Of the total credit needs of the rural people, formal sector meets only **(1)**
 - a. Quarter of the total credit needs
 - b. Half of the total credit needs
 - c. 10% of the total credit needs
 - d. 30% of the total credit needs
5. Which agency is not included in informal loan sector or agency: **(1)**
 - a. Village money lender
 - b. Bank

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- c. Relative of borrower
 - d. Trader

6. Who issues currency notes in India? **(1)**
7. Who takes the decision in SHG regarding savings and loan activities? **(1)**
8. What is meant by the double coincidence of wants? **(1)**
9. What are included in the 'collateral demand' that lenders make against loans? **(1)**
10. How will you justify that interest on loans is a main source of income of the banks?
(3)
11. Explain the different types of objects used as money before the introduction of coins?
(3)
12. Why do poor people in rural areas prefer to borrow from informal sources? **(3)**
13. What are the reasons that make Swapna's situation so risky? Discuss factors - pesticides, role of money lenders, climate. **(3)**
14. "Credit is useful as well as harmful, it depends on the risk involved". Support the statement with examples. **(5)**
15. Explain features each of formal sector loans and informal sector loans. **(5)**

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Answer

1. b. Bank loan requires proper documents and collateral.

Explanation: Informal lenders know the borrowers personally and hence are willing to give loan without collateral (it is an asset that the borrower owns (such as land, building, vehicles, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.). They also do not keep records of transactions which makes the borrowers comfortable taking loan from them.

2. c. Borrowing money

Explanation: Credit refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment. Credit also refers to an accounting entry that either decreases assets or increases liabilities and equity on the company's balance sheet.

3. c. barter exchange

Explanation: Barter exchange is the exchange of goods for goods without any exact measurement and it requires double coincidence of wants. Before the use of currency, barter system was prevalent everywhere.

4. b. Half of the total credit needs

Explanation: Formal sector meets only half of the total credit needs of the rural people and the remaining credit needs are met from informal sector. Due to this, the situation of debt trap is prevalent in rural areas.

5. b. Bank

Explanation: Bank

6. Reserve Bank of India issues currency notes in India.

7. Members of Self Help Group.

8. Double coincidence of wants implies that the needs of any two individuals should complement each other for the exchange to take place. Both parties, the seller and the buyers have to agree to sell and buy each other commodities. Goods are directly exchanged without the use of money. For example, a person with a particular good

has to find a person who has the goods of his wants and he should also possess the wanted good of the other person.

9. The collateral demand that lenders make against loan includes the building of borrower, cattle of borrower or any fixed deposits of the borrower in banks. Property such as land, livestock etc. are some of the common examples of collateral used for borrowing.
10. Banks mediate between those who have surplus funds and those who are in need of these funds. It means that a bank mediates between borrowers and depositors. Banks charges very high interest rate on loans than what they offer to the depositors. The difference between what is charged from borrowers and what is paid to depositors is their main source of income. In these days' banks started so many schemes just to attract the borrowers. Banks offer loans at attractive interest rate. The main motive behind all these steps of banks is to earn huge profit.
11. Before the introduction of coins, people used the things related to their domestic life. For example in this era people used grains and cattle as money. People use milk, cotton and crops to conduct business, There after came the use of metallic coins-gold, silver, copper coins- a phase which continued well into the last century.
12. Poor people in rural areas prefer to borrow from informal sources because of the reasons mentioned below:
 - There are certain requirements in taking loans from formal sector like collateral, documentation and other formalities. But these are not required in informal sector so poor households take loans from this sector. Hence, the absence of collateral is one of the major reasons which prevents the poor from getting a bank loan from the formal sector.
 - Informal lenders like moneylenders know the borrower personally and hence, are often willing to give a loan without collateral.
 - The borrowers can, if necessary, approach the moneylender even without repaying their earlier loan.
13. Pest attack, exploitation by money lenders and lack of monsoon are the reasons that make Swapna's situation so risky.

These factors are explained below:

Pesticides - Pest attack can be controlled by pesticides. Pesticides will reduce or eliminate the attack by pests.

Role of Moneylenders – Generally moneylenders exploit farmers. They charge a very high rate of interest and keep them in debt-trap. Here, the role of moneylenders is important because they charge high interest rates and also takes away part of Swapna's land if she defaults on loan repayment when her crop fails. This will reduce her earning power even further in the future.

Climate – Nearly 60% of our agricultural land area is still un-irrigated. Our farmers heavily depend on rainfall. So, climate plays a vital role in agriculture.

14. Credit is useful because:

- i. It helps to meet the working capital needs of production.
- ii. It helps in setting up new industries or businesses.
- iii. Credit is a working capital which is required for production. The credit helps the farmers to meet the ongoing expenses of production, complete production on time, and thereby increase his earnings. Credit, therefore, plays a vital and positive role in this situation.

But, it is harmful also that depends on the risk involved

- i. The failure of the crop may push the borrower into a situation from which recovery is very painful. In many cases, farmers need to sell part of the land to repay the loan.
- ii. Credit pushes the borrower into a debt-trap in the case of high risk.
- iii. Instead of an improvement in earnings, the borrower is much worse off than before. For example, farmers have to sell part of the land to repay the loan.

From the above points, it can be concluded that whether the credit would be useful or harmful depends on the risks in the situation and whether there is some support in case of loss.

15. **Formal Sector Loans:** Include loans from banks and cooperatives. Features of formal sector loans are mentioned below:

- i. Formal sectors provide cheap and affordable loans and their rate of interest is monitored by Reserve Bank of India. Comparatively rate of interest charged is lower than that of the informal sector loans.
- ii. Formal sector strictly follows the terms of credit, which include interest rate, collateral, documentation and the mode of repayment.
- iii. Rich urban households depend largely on formal sources of credit.

Informal Sector Loans: Include loans from moneylenders, traders, employers, relatives, friends etc. Features of informal sector loans are mentioned below:

- i. Informal Sector's credit activities are not governed by any organisation, therefore they charge a higher rate of interest.
- ii. Informal sector loan providers know the borrowers personally, and hence they provide loans on easy terms without collateral and documentation.
- iii. Poor households largely depend on informal sources.