Hots (Higher Order Thinking Skills)

Q. 1. How are deposits with the bank beneficial for individual as well as for the nation? Explain with examples.

Ans. Banks accept deposits and also pay an interest rate on the deposits.

In this way, people's money is safe with the banks and it earns an interest as well.

People also have the provision to withdraw the money as and when they require.

Banks keep only a small portion of their deposits as cash.

Then they use the major portion of the deposits to extend loans.

There is a huge demand for loans for various economic activities. Banks make use of the deposits to meet the loan requirements of the people.

This creates employment and income to the people of a nation and contributes to national development.

Q. 2. "Focuses of currency have undergone several changes since early times." Elucidate.

Ans. Before the introduction of coins, a variety of objects was used as money.

For example, since the very early ages, Indians used grains and cattle as money.

Thereafter, cause the use of metallic coins — gold, silver, copper coins — a phase which continued well into the last century.

Modern forms of money include currency — paper notes and coins.

Modern currency is not made of precious metal, it is without any use of its own.

Q. 3. Why is it necessary that banks and co-operatives increase their lending in rural areas? Explain. [CBSE (Comptt.) 2016]

Ans. Banks and cooperatives should increase their lending in rural areas:

(i) Formal sector charges low rate of interest.

(ii) Lack of formal sources of credit in villages.

(iii) Villagers mainly depend on informal sector.

(iv) They charge high rate of interest.

(v) Borrowers come under debt trap.

(vi) Therefore there is a need to expand formal sectors so that everyone receives these loans.

Q. 4. How do formal and informal sources of credit differ from each other?

Ans.

Formal Sector Loans	Informal Sector Loans
(i) Comparatively rate of interest charge is lower.	(i) Higher rate of interest is charged.
(ii) Collateral is must for getting loan from a formal sector.	(ii) They are ready to give loans without any collateral too.
(iii) RBI supervises them.	(iii) There is no organisation to supervise them.
(iv) Rich urban households depend on formal sector.	(iv) Poor households depend on informal sector.
(v) Example: Banks and Cooperatives.	(v) Example: Moneylender, traders, friends, retailers, etc.
(vi) Organised banking sector is systematic in its functioning.	(vi) Unorganised sector is not so systematic and often indulges in malpractices to exploit the customers.
(vii) Organised financial intermediaries maintain proper books of accounts. Their books of accounts are regularly audited. Their functioning is more transparent.	(vii) Unorganised financial intermediaries do not maintain proper books of accounts. They do not charge uniform interest rates. They keep their business affairs confidential.
(viii) Formal credit sector usually grants loan for productive purposes like purchase of machinery, agricultural equipments, house, etc.	(viii) Informal credit sector usually does not differentiate between loan for productive and unproductive purposes. They easily give loan even for unproductive purpose like loan for family function, for illness, etc.
(ix) Here, more documentation is required. It involves many formalities.	(ix) It involves less documentation. It involves less formalities. That is why illiterate persons prefer to take loan from this sector.

Q. 5. How does RBI supervise banks?

Ans. Reserve Bank of India supervises banks by laying guidelines and norms for the banks:

(i) RBI requires commercial banks to keep a certain percentage of their deposits in cash and other liquid assets. This percentage is called statutory liquidity ratio (at present this ratio is 25 per cent). After keeping a part of deposits in cash and other liquid assets, banks can use their surplus funds to give loans. The objective is to ensure that banks can meet the withdrawal requirements of deposit holders.

(ii) RBI also requires commercial banks to deposit a certain percentage of their deposits with RBI in cash. This percentage is called cash reserve ratio (at present this ratio is 5.5 per cent).

(iii) RBI issues guidelines for fixing rate of interest on borrowings and lending by commercial banks.

(iv) RBI directs the commercial banks to give a certain percentage of loans to priority sector (agriculture, small-scale industries, self-help groups, etc.).