

CBSE Test Paper - 04
Chapter - 26 Money and Credit

1. Loan from banks and cooperatives is an example of **(1)**
 - a. Informal sector loan
 - b. Private sector loan
 - c. Primary sector loan
 - d. Formal sector loan
2. Which of these is not included in informal credit sector **(1)**
 - a. Relative of borrower
 - b. Village money lender
 - c. Cooperative Bank
 - d. Trader
3. What is demand deposit? **(1)**
 - a. The customer never demand for the deposit in bank
 - b. The bank demands for the deposit
 - c. The bank doesn't demand for deposit
 - d. Deposit in the bank account can be withdrawn on demand
4. Central Bank of India is **(1)**
 - a. Indian Bank
 - b. State Bank of India
 - c. Reserve Bank of India
 - d. Bank of India
5. Money has replaced _____ as the medium of exchange. **(1)**
 - a. Gold currency
 - b. Barter
 - c. Banks

d. Paper currency

6. In which year Professor Mohammad Yunus received the Nobel Prize for Peace? **(1)**
7. Prove with an argument that there is a great need to expand formal sources of credit in rural India. **(1)**
8. Write a special feature of the Gupta coins. **(1)**
9. What is the main purpose for which farmers in rural areas take loan? **(1)**
10. Can you think of some examples of goods/services being exchanged or wages being paid through Barter system? **(3)**
11. Why do informal lenders give loans to people not having any collateral? **(3)**
12. What motives are there to deposit money in the bank by depositors? **(3)**
13. Mention the reasons for which the informal sources of credit preferred in rural area? **(3)**
14. Describe the role played by Grameen Bank of Bangladesh in improvement of the condition of poor particularly women. **(5)**
15. Compare and contrast the role of formal and informal source of credit. **(5)**

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Answer

1. d. Formal sector loan

Explanation: The formal sector loans includes loans from banks and cooperatives and Reserve Bank of India supervises the functioning of formal sources of loan. Formal sector loan requires collateral and has a low rate of interest as compared to informal sector loan.

2. c. Cooperative Bank

Explanation: A cooperative bank is a formal credit sector which provides loan at cheap and reasonable rates and is properly governed by government bodies. The other three are the informal sources of credit.

3. d. Deposit in the bank account can be withdrawn on demand

Explanation: A demand deposit consists of funds held in an account from which deposited funds can be withdrawn on demand in the form of cash as well as in the form of cheque which instructs the bank to pay a specific amount from the persons account to the person in whose name the cheque has been issued.

4. c. Reserve Bank of India

Explanation: Reserve Bank of India issues currency on behalf of central government of India and also oversees the working of all the banks in India. It was established in the year 1935.

5. b. Barter

Explanation: Earlier barter system was prevalent, where goods were exchanged for goods. But now with the help of money goods can be purchased with the help of money which makes the process of exchange of good more smoother.

6. In 2006 Mohammad Yunus received the Noble Prize for peace.

7. The formal sector still meets only about half of the total credit needs of rural people. The remaining credit needs are met from informal sources. Most loans from informal lenders carry very high interest. The formal sources of credit for lending need to

expand their operations, particularly in rural areas so that the dependence, on informal sources of credit reduces.

8. Gupta coins were not properly circular in shape and the picture of the king or a person was shown on it.
9. The main purpose of the requirement of the loans by the farmers is crop production.
10.
 - i. In rural areas generally, crops and food-grains are directly exchanged without the use of money.
 - ii. In some government schemes, agricultural labourers are normally paid not in cash but in kind, e.g. 5 kg. wheat or rice per day.
 - iii. Some hawkers sell trinkets and edible stuff in lieu of old bottles and plastic containers.
 - iv. Bartering can also take place as an exchange for services. Services are salable acts such as performing mechanical work or providing legal representation. If one professional agrees to perform tax accounting for another professional in exchange for cleaning services, this is a barter transaction.
11. Informal lenders give loans to people not having any collateral because 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. However, the moneylenders charge very high rates of interest, keep no records of the transactions and harass the poor borrowers. They can use unfair or illegal means to get their money back.
12. A depositor may have many reasons to deposit his money with a bank. This can be:
 - i. It is safe and beneficiary to keep money in banks.
 - ii. Depositor gets interest on it so their principal amount can increase with the interest added on it
 - iii. People also have provision to withdraw the money from the banks according to their need.
13. The rural area people are unable to provide collateral. There is no need of paper work which the rural poor people are not able to provide. In rural areas moneylenders, traders and rich landlords have no objection to defaulters even if the previous loan is unpaid. Poor people hesitate and are not confident about the functioning of the banks. Banks are not accessible to the villages of poor people. The procedure by

which moneylenders and rich landlords use to give loan is very simple.

14. Grameen Bank of Bangladesh was started in the 1970s. It has now over 6 million borrowers in about 40,000 villages. Almost all the borrowers are women and belong to poorest sections of the society. These borrowers have proved that not only are poor women reliable borrowers, but they can start and run a variety of small income generating activities successfully. Thus, the Grameen Bank has played a significant role in the improvement of the condition of the poor women in Bangladesh. Professor Muhammad Yunus, the founder of Grameen Bank and a recipient of 2006 'Nobel Peace Prize' for peace has stated that, "if credit can be made available to the poor people on terms and conditions that are appropriate and reasonable these million of small people with their millions of small pursuits and add up to create the biggest development wonder."
15. The comparison between the role of formal and informal source of credit is stated below

Formal Sector	Informal Sector
It consists of banks and cooperatives. Which are supervised by the Reserve Bank of India.	It consists of moneylenders, traders, employers, landowners etc. Which are not supervised by any organisation.
Their main motive is social welfare.	Their main motive is profit-making.
They generally charge lower rates of interest.	They charge much higher rates of interest., which means that the cost of the loan is very high to the borrower.
Usually, the loans require extensive documentation and some property to be kept as collateral or security against any default in payment.	Usually, the informal sources do not require extensive documentation for giving the loan.
RBI supervises the functioning of formal sources of credit.	There is no organisation which supervises credit activities.