

**CBSE Test Paper - 02**  
**Chapter - 26 Money and Credit**

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1. Deposits in bank accounts withdrawn on demand are called: **(1)**
  - a. current deposits
  - b. demand deposits
  - c. recurring deposits
  - d. fixed deposits
2. Since money acts as an intermediate in the exchange process, it is called: **(1)**
  - a. Barter System
  - b. medium of exchange
  - c. value for money
  - d. exchange value
3. Which of these is not an informal sector of credit? **(1)**
  - a. Money lenders
  - b. Employer
  - c. Banks
  - d. Cash traders
4. What is the name of the success story that met the credit needs of the poor, at reasonable rates, in Bangladesh? **(1)**
  - a. Grameen Bank
  - b. Reserve Bank
  - c. Schedule Bank
  - d. Cooperative Bank
5. What is the full form of NABARD? **(1)**
  - a. National Bank for Ahmedabad rural development
  - b. National Bank for Agriculture and Rural Development

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- c. National Bank for Asian Roads Development
  - d. National Bank for Asian and Rural Development

6. How many members a typical Self Help Group should have? **(1)**
7. At what interest rate Shyamal borrow money from the village moneylender? **(1)**
8. Which agency has the sole right to print currency notes on behalf of Government of India? **(1)**
9. Recognize the situation when both the parties in a barter economy have to agree to sell and buy each other's commodities? What is it called? **(1)**
10. Why do you think that the share of formal sector credit is higher for the richer households compared to the poorer households? **(3)**
11. Dhananjay is a government employee and belongs to a rich household, whereas Raju is a construction worker and comes from a poor rural household. Both are in need and wish to take loan. Create a list of arguments explaining who between the two would successfully be able to arrange money from a formal source. Why? **(3)**
12. How far it is correct to say that the modern currency is without any use of its own as a commodity? Give reasons to support your answer? **(3)**
13. “Money plays very important role in our everyday life” Explain. **(3)**
14. Define Credit. Give examples of formal and informal sources of credit in India. State the advantages of formal sources of credit. **(5)**
15. Why do you think that the formal sources of credit provide loans at reasonable interest rates? **(5)**

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**Answer**

1. b. demand deposits

**Explanation:** People have the provision to withdraw the money as and when they require. Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits. A demand deposit consists of funds held in an account from which deposited funds can be withdrawn at any time from the depository institution, such as a checking or savings account, accessible by a teller, ATM or online banking.

2. b. medium of exchange

**Explanation:** A medium of exchange is something that buyers will exchange with a seller when they want to purchase goods or services from the seller. While many things could be used as a medium of exchange in an economy, money is the most common and useful medium of exchange in our society.

3. c. Banks

**Explanation:** Banks is a formal sector of credit and these are supervised by Reserve Bank of India(RBI). The other three are the informal sources of credit.

4. a. Grameen Bank

**Explanation:** Grameen Bank of Bangladesh is one of the biggest success stories in reaching the poor to meet their credit needs at reasonable rates. Started in the 1970s as a small project, Grameen Bank now has over 6 million borrowers in about 40,000 villages spread across Bangladesh. Almost all of 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 that they can start and run a variety of small income-generating activities successfully.

5. b. National Bank for Agriculture and Rural Development

**Explanation:** NABARD stands for National Bank for Agriculture and Rural Development and came into existence on 12th July 1982 by transferring the

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agricultural credit functions of RBI. It is headquartered at Mumbai with regional offices all over India.

6. 15-20 members
7. Shyamal borrow money from the village moneylender at the interest rate of 5% per month or 60% per annum.
8. Reserve Bank of India (RBI) has the sole right to print currency notes on behalf of Government of India.
9. This is known as double coincidence of wants. The double coincidence of wants means that both the parties have to agree to sell and buy each other's commodity i.e. what a person desires to sell is exactly what the other person wishes to buy.
10. The share of the formal sector credit is higher for the richer households due to the reasons mentioned below:
  - Formal sector credit requires proper documents and collateral as security against loans. But poor people lack in providing such things which affect their capacity to get loans from the formal sector. The richer households are in a better position to provide collateral and other necessary documents which are required by the banks and cooperatives. Hence, absence of collateral is one of the major reasons which prevents the poor from getting banks loans.
  - Richer households have means to exert pressure on banks and cooperatives to sanction loans. These households have greater capacity to repay the loans compared to the poor households.
11. As per the given case, since among the two, Dhananjay is a government employee and also belongs to a rich household he will be able to get a loan from a formal source. Raju is a construction worker and comes from a poor rural household. The poor households are still dependent on informal sources of credit. The following arguments on this are as follow:
  - i. Banks are not present everywhere in rural India.
  - ii. Even when they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources.
  - iii. Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.
  - iv. Informal lenders like moneylenders, know the borrower personally and hence,

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are often willing to give a loan without a collateral.

12.
  - i. Modern forms of money include currency-paper notes and coins.
  - ii. Unlike the things that were used as money earlier, modern currency is not made of precious metals such as gold, silver and copper. And unlike grain and cattle, they are not utilise as everyday things.
  - iii. The modern currency is merely a paper currency and it is accepted a medium of exchange because it is authorized by the government of the country. So the modern currency is without any use of its own.
13. The use of money plays a very important role in our everyday life. No transaction is possible without the use of money. Goods are bought and sold with the use of money. The objective of each and every person is to earn money to fulfill their daily needs. If we want to purchase any thing whether it is small or large we need money.
14. Credit is an agreement in which the lender supplies the borrowers with money, goods and services in return for the promise of future payment.

- **Credit:**

- **The main sources of credit in India.**

- i. Formal sources of rural credit in India are:
  - i. Cooperative Societies.
  - ii. Commercial Banks.
- ii. Informal sources of rural credit in India are:
  - i. Relatives and friends.
  - ii. Local moneylenders.

- **The advantages of formal sources of credit are as follows:**

- i. These are regulated by the Reserve Bank of India.
- ii. The rates of interest for loans are comparatively less.
- iii. It provides loans at fixed rates and terms.
- iv. It gives loans not just to profit-making businesses and traders but also to small cultivators, small-scale industries to small borrowers etc.
- v. Cost of borrowing is less and hence promote borrowing and more economic growth.
- vi. There is no exploitation as in the case with the informal sectors.

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15. i. Formal sources of credit work according to the norms of Reserve Banks of India.
- ii. The RBI monitors that the banks provide loans not just to the profit-making businessmen and traders, but also to small cultivators, small scale industries, to small borrowers etc.
- iii. Rates of interest are fixed by RBI according to the instructions given by central government. Who works to facilitate to poor farmers and small businessman.
- iv. The formal sources to provide loan at low interest rate because people can increase their income and help them in the overall development of the country.
- v. Low interest rate helps the poor people to increase their economic condition.