

Chapter :1

Money and Banking

PART-III:ECONOMICS

VERY SHORT ANSWER TYPE QUESTIONS:

Q 1. What is barter?

Ans: The term ' barter ' refers to a system of trade in which commodities are directly exchanged against commodities.

Q 2. What is money?

Ans In the words of Geoffrey Crowther , " Anything that is generally acceptable as a medium of exchange is money."

Q 3. Manton one important function of money?

Ans: An function of money is that it serves as a medium of exchange to facilitate transactions.

Q 4. Give one example of non-legal tender money.

Ans: One example of non- legal tender money is cheque money.

Q 5. What is Representative paper money?

Ans : Representative paper money is refers money to symbolic money which is capable of conversion into gold or silver of equivalent value.

Q 6. What is Bank?

Ans : A Bank is financial institution that accepts deposit and grants loans.

Q 7. In years was the Reserve Bank of india set up.

Ans: Reserve Bank of india was set up in 1935.

Q 8. What is current deposit?

Ans: A current deposit refers to a savings account wherein the sarver or depositor and can withdraw money at any time.

SHORT ANSWER TYPE QUESTIONS

Q 1. How does the lack of double coincidence of wants create problem in the barter system?

Ans: The barter system is dependent on double coincidence of wants. It is impossible to trade if there is lack of double coincidence of wants. Fore example, if A and B want to barter, then A must have what B wants. At the same time, B must have what A wants. If A and B do

not meet this criterion, then it implies lack of double coincidence of wants. In such case, trading is not possible.

Q 2. What is meant by store of value?

Ans: Store of value refers to that function of money which enables it to be stored and retrieved at a later period of time. Money can be stored because it is durable in nature.

Q 3. Which characteristic of money is the most important one and why?

Ans: The most important characteristics of money is its general acceptability. Money serves as a medium of exchange because it is readily accepted by the general public without any hesitation.

Q 4. What is liquidity of money?

Ans: Liquidity of money refers to the ability by which money can be immediately converted into goods and services required by the holder of money. Money is considered to be the most liquid asset because it can be easily converted into other asset. Besides money, other liquid asset are land, silver ,gold, etc.

Q 5. ' Money is the common unit of measurement of the value of the goods and services'. Explain.

Ans: We know that all economic goods have Prices. As a measure of value, money helps in expressing the value of goods and services in terms of price. Since Money is the common unit of measurement, it becomes very easy to determine the value money is the goods and services make a comparison thereof. Thus, it has been rightly said that "Money is the common unit of measurement of the value of goods and services."

Q 6. What is the difference between limited and unlimited legal tender?

Ans : The difference between limited and unlimited legal tender are:

Sl. No.	Basis of difference	Limited legal tender	Unlimited legal tender
(i)	Meaning	Form of legal tender money which is acceptable upto a given value of transaction.	Form of legal tender money which is accepted without any limit for transactions of any value.
(ii)	Example	Coins cannot be used for transactions of high value.	Paper money of higher values.

Q7. What are the functions of the Regional Rural Banks?

Ans: The function of the Regional Rural Banks are:

(i) Granting loans and advances to the Village at nominal rate of interest and thus relieving them from the high rate of interest charged by private money lenders.

(ii) Encouraging rural savings and mobilising these savings for investment in various productive activities.

Q 8. How are the non Banking financial institution different from the banks?

Ans: The non Banking financial institution differ from Banks following respects:

Sl. No.	Basis of difference	Non Banking Financial Institutions	Banks
(i)	Manner of withdrawal	Money cannot be withdrawn by the depositor through cheque.	Money can be withdrawn by the depositor through cheque.
(ii)	Coverage of risk	No scheme provides for covering the risks of the depositors.	Provision of Deposit Insurance Scheme covers the risks of the depositors.

LONG ANSWER TYPE QUESTIONS :

Q 1. Explain four demerits of the barter system ?

Ans: The demerits of the system are:

(i) **Difficulty of meeting double coincidence of wants:** The barter system is dependent on double coincidence of wants, by which the goods possessed by two different individuals must be needed by each other. If this is not fulfilled, trading is not possible under barter system.

(ii) **Lack of common unit of account:** all commodities are valued in terms of the value of another commodity, so the rate of exchange is different for every aacommodity

against the other items. This is impossible to maintain and remember.

(iii) Indivisibility of exchangeable commodities: The barter system does not work the exchangeable commodities are indivisible in nature. It is quite troublesome when a big indivisible commodity (e.g elephant) need to be exchange for a small commodity (e.g.apple).

(iv) Difficult of storage and savings : Under barter system, wealth is stored in terms of goods and services. Ever, stroage of value in terms of goods is subject to certain problem, viz.

(a) Cost of stroage.

(b) Loss of value in case of perishable commodities like milk, fish, egg, etc.

Q 2. Explain any four characteristics of money.

Ans: The characteristics of money are:

(i) Generally acceptability: In order to serve as a medium of exchange, money must be readily accepted by the general public without any hesitation.

(ii) Cognizability : By the term Cognizability of money, we mean that money should be capable of being easily recognised.

(iii) Durability : Durability of money means that money should not get deteriorated over an extended period of time. If money would get deteriorated, then it wouldn't be possible to store and save money.

(iv) Homogeneity : Money must be homogeneous in nature. In simple words, money of same denomination should be identical in all aspects, viz size , shape , paper quality, etc.

(v) Liquidity : money must be characterized by liquidity. Here, liquidity Means the ability of money to get easily be and directly converted into goods and services as when the holder wants.

(vi) Transferability : Money must be transferable in nature. By transferability of money , we mean that holder must be able to transfer money from one person to another person and also from one place to another place so as to settle transactions. For this purpose , credit card, debit cards and core banking facilities have become prominent nowadays.

(vii) Divisibility: Money is divisible in divisible in nature. High denomination money can be easily converted into smaller denominations.

(Viii) Stability: Stability of value is an important characteristics of money. If is unstability in the value of money, then it would become difficult for people to save money as a store of value.

Note: students shall write any four points or as per the requirement of the a question asked in the examination.

Q 3. Explain four major function of money.

Ans :The function PRIMARY'S of money can be categorised into three broad heads :

(A)PRIMARY FUNCTIONS :

(i) Medium of exchange: The Main function of money is to serve as a medium of exchange. We use money as a means of transaction of all goods and services. Due to the general acceptability of money , the exchange of any service or commodity is possible with the help of money.

(ii) Measure of value : Money serves as a standard of measure of value in terms of which the value of all goods and services are measures. Price are value in exchange expressed in terms of money is the common unit of account by which the value of all economic goods and services is determined.

(B) SECONDARY FUNCTIONS :

(i) store of value : Money is a liquid store of value and can be kept for future use . It is highly durable and can be easily converted into any goods and service as and when required. Hance, money acts as a store of value, until it's own value does not fall rapidly.

(ii) Standard of deferred payments: When money is generally accepted as a medium of exchange and a unit of value, it naturally becomes the unit in terms of which deferred or future payments are stated. Thus, money not only helps current transactions but also facilitates credit transactions through its function as a standard of deferred payments. Money facilitates the act of borrowing, leading and repayment of loans.

(C) CONTINGENT FUNCTIONS:

(i) Optimum mobilisation of money from the richer class to the poorer class of the society and thus help in reducing economic inequality.

(ii) serves as a basis for credit creation.

Note: Students shall write any four of the above six points or as per the requirement of the question asked in the examination. However the first four are more important.

Q 4. Is cheque money? Give reason for your answer.

Ans : No, cheque cannot be considered as money due to the following reasons :

(i) Cheque is not characteristics by general acceptability as the medium of exchange.

(ii) Cheque is a mere promise to pay. It is not payment.

(iii) Cheque cannot be instantly converted into money,
i.g. lack liquidity

(iv) Cheque cannot be divisible into smaller units.

(v) Cheque does not possess Cognizability.
Transactions can be problematic if a cheque bounce.

Q 5. Mention four problems associated with money.

Ans : The progress and economic development of any country depends on the availability of money in that country. All economic activities of a country such as production, distribution and are associated with money. These problems are:

(i) **Loss of value :** one of the main drawbacks of money is that it may bring about instability in the country as a result of inflation and deflation caused by the erosion of the value of money.

(ii) **Concentration of wealth:** Money often leads to concentration of wealth and economic power in the hands of a few individuals or group of people.

(iii) **Leads to social evils :** many of the social evils which affect society today, are the consequences of the misuse of money. Bribery, corruption, misuse of money, power in politics, financial fraud, bank scam, etc. result from weakness for money.

(iv) Black money : Economic offence leads to the creation of black money. It brings about an increase in the volume of unaccounted money in the market leading to inflation in the country.

Q 6. Explain any four functions of the Central Bank.

Ans: the Central Bank is the apex government bank of a country which is entrusted with the task of Reserve Bank of India is the Central Bank. The main functions of the Central Bank are:

(i) Issue of currency : The Central Bank has the monopoly to issue currency.

(ii) Banker to the government : The Central Bank functions as the banker to the government. As a banker, the Central Bank acts as:

(a) supplier of funds to the government : By printing new currency notes to meet the budgetary deficit of the Central Bank Government.

(b) Advisor to the government : By extending economic advice to the government on making the income policy, trade policy, tax, etc. More effective.

(c) Agent to the government : By maintaining the account of income and expenditure of the government.

(iii) Banker to the banks : The Central Bank acts as the banker's bank . In this capacity, the Central Bank :

(a) Examines the account the commercial banks.

(b) Acts as the lender for the commercial banks when they are in deep financial criss.

(iv) Regulation of credit : The Central Bank controls the total volume of credit in the country. Through this function, the Central Bank control the leading capacity of the commercial banks.

(v) Custodian of foreign exchange reserves : The Central Bank as the custodian of foreign exchange reserves. It fix the official rate of exchange.

(vi) Clearing agent : As a clearing agent, the Central Bank helps in settling account of the member banks. As all banks have their account in the Central Bank, the Inter- bank leading and borrowing are cleared at the Central banking leave.

(vii) promotion role : The Central Bank helps in promoting socio - economic development of the nation by providing funds to the priority sectors leading in India.

(viii) Miscellaneous functions :

(a) Reviewing the economic situation of the nation .

(b) Granting loans to the Cooperative Bank and other banks.

(c) Providing welfare funds for social and educational purposes, etc.

Note : Students shall write any four points or as per the requirement of the question asked in the examination.

Q7. Explain any two major function of the commercial banks.

Ans : Commercial banks are the financial institution which accept deposit from individuals or organisation banks are among the main pillars of the modern economic system. The main function of the commercial banks are:

(i) Acceptances of deposits : The commercial banks accept deposit from individuals and accept three types of deposit. These are :

(a) Current deposit or demand deposit : In these deposits , withdrawals are allowed at any time .

(b) Saving deposits : A part of the deposit can be withdrawn whenever needed but to withdraw the other part, prior bank permission is needed.

(c) Fixed or time deposits : In these deposits, amounts are deposit for a fixed period say one , two or five

years, and withdrawal at will is allowed only if the depositor gives prior intimation to bank.

(ii) Advancing of loans : The commercial banks provide loans for the benefit of framers, artisan , Industrialists, rickshaw pullers , etc . Commercial banks generally offer Short and medium - term loans.

(iii) Credit creation : Creation of credit is one of the significant functions of commercial banks. There are two types of bank deposit : a) primary or passive deposit

(b) Active or derivative despite. Primary or passive deposit constitute the money deposit by the depositors. The commercial banks create credit on the by basis of primary deposits. When the commercial banks advance loans to a parson , the bank credits the amount of loan. Thus, loan creates deposit and these deposits are known as Active deposit or derivative deposit. In this ways , commercial banks create huge amount of money in the market backed by only a small amount of actual cash reserve or security.

(iv) Miscellaneous functions :

(a) provisions of locker facilities for safe custody of valuable ornaments, important documents, etc.

(b) Acting as the trustee of the customer's property.

Note : Students shall write any two points or as per requirement of the question asked in the examination.

Q 8. Briefly explain any two function of each of the following :

(i) IDBI (ii) R R B ' s

(iii) N A B A R D (iv) S I D B I

Ans : (i) IDBI : the functions of IDBI can be categories under two broad categories. They are :

(A) primary functions : (i) To offer financial assistance to the Industries by providing direct and indirect loans for Industries development.

(ii) To develop the institution that are related to Industrial development of the country.

(B) secondary functions : (i) To grant loans and advances at concessional rate of interest to Industries established in the backward regions.

(ii) To encourage the new generation towards entre premiership by conducting various training programmes.

Note : students shall write any two points or as a requirement of the question asked in the examination.

(ii) R R B 'S : Do Your Self

(iii) N A B A R D : The function of N A B A- RD are :

(a) To serve as the apex development bank for promoting investment and production in rural areas.

(b) To simplify the process of granting loans and advances.

(c) To assess and evaluate the various rural schemes.

(d) To organisation training programmes for the beneficiaries.

(e) To coordinate the rural credit financing activities of the central government the state government, the Reserve Bank of india, etc.

Note : Students Shall write any two points or as per the requirement of the question asked in the examination.

(iv) SIDBI : The function of SIDBI are:

(a) To take adequate steps for technological upgradation and modernisation of small Industries.

(b) To expand marketing channels for the products of the small Industries.

(c) To promote employment oriented small Industries in semi- urban areas and thereby serve as a check on migration of people to urban areas.

(d) To grant loans and advances to Industrial corporation, state financial corporation Cooperative banks, Regional Rural Banks and commercial banks so that these institutions can provide financial assistance to small industries.