

CBSE Test Paper - 03
Chapter - 26 Money and Credit

1. What is the reason for popularity of banks and cooperatives? **(1)**
 - a. They do a good amount of advertisement
 - b. Banks provide loans at a very less rate of interest
 - c. Decreasing number of money lenders
 - d. People are made to know door to door
2. SHGs stands for **(1)**
 - a. Self Help Groups
 - b. Self Housing Groups
 - c. Society Help Groups
 - d. Self House Groups
3. What prevents the poor from getting bank loans? **(1)**
 - a. None of these
 - b. High rates of interest
 - c. Absence of collateral
 - d. Complexity of procedure
4. Since money acts as a medium in the exchange process, it is called **(1)**
 - a. medium of credit
 - b. exchange value
 - c. medium of exchange
 - d. value for money
5. What is demonetisation? **(1)**
 - a. Devaluating currency
 - b. Declaring some currency notes invalid
 - c. Reissuing currency

d. Revaluating currency

6. What do you mean by 'Barter system'? **(1)**
7. Why should credit at reasonable rates be available for all? **(1)**
8. Should there be a supervisor such as the Reserve Bank of India that looks into the loan activities of informal lenders? Why would its task be quite difficult? **(1)**
9. Give one reason to deposit money in the banks. **(1)**
10. Suppose Salim continues to get orders from traders. What would be his position after six years? **(3)**
11. Explain with examples, how people are involved with the banks. **(3)**
12. Why there is a need to supervise the banking system by RBI? **(3)**
13. What are the modern forms of money? Why is the 'rupee' widely accepted as a medium of exchange? **(3)**
14. Why is it necessary for banks and cooperatives to increase their lending in rural areas? Explain. **(5)**
15. What are the main reasons for formal credit not being available to the rural poor? Why is there a need to expand rural credit? **(5)**

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Answer

1. b. Banks provide loans at a very less rate of interest

Explanation: Banks and cooperatives charge a very low rate of interest, hence, the income of borrower increases and he finds safe borrowing from the bank. Therefore people usually prefer banks and cooperatives for credit instead of any other sources.

2. a. Self Help Groups

Explanation: A self-help group is a village-based financial intermediary committee usually composed of 10–20 local women or men. Most self-help groups are located in India, though SHGs can be found in other countries, especially in South Asia and Southeast Asia. In these groups the members of the group pool their savings and the members can take small loans from the group itself to meet their needs.

3. c. Absence of collateral

Explanation: Bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans. Informal lenders such as moneylenders, on the other hand, know the borrowers personally and hence are often willing to give a loan without collateral.

4. c. medium of exchange

Explanation: Money may be defined as anything which is generally accepted by the people in exchange of goods and services. It gives convenience to both seller and buyer to exchange goods which removes the need of double coincidence of wants. so, it acts as a medium of exchange in the process of buying and selling of goods.

5. b. Declaring some currency notes invalid

Explanation: Demonetisation is a process under which the government of a country declares the currency being used in the country as invalid and people

have to surrender that currency, then the government issues new valid currency. It is done to ambush black market. In India the first demonetisation took place in January 1946.

6. Barter system is the system in which goods are directly exchanged without the use of money.
7. Credit should be available at reasonable rates because on one hand if the rates are low, people will easily be able to return the loan and secondly, they will improve loan borrowing power of people, invariably affecting their business and personal success. The poor people can also benefit from cheaper loans rates.
8. There should be a supervisor for checking the loan activities of informal lenders. However, its task is quite difficult because the informal sector constitutes many people who have a different kind of business of their own, besides lending. This would portray a difficult task due to a lot of people mostly depending on these money lenders and hence regulating the activities of these money lenders is not so easy. They are not registered with the government.
9. To save money and to earn interest.
10. For the next six years, if Salim continues to get orders from traders he'll be in the given position:
 - i. The profit earned by Salim from sales of shoes can be used to finance his future business.
 - ii. Then he will not have to borrow money from any source of credit.
11. Banks are an important organisation and medium of making accepting deposits and lending money to the public. One of the important activities of bank is that it accepts the deposits from the people who have surplus money and also pay interest on the deposits. But banks keep only a small portion (15 percent in India) of their deposits as cash with themselves. This is kept as a provision to pay the depositors who might come to withdraw money from their accounts in the bank on any day. They use the major portion of the deposits to extend loans to those who need money. In this way, banks mediate between those who have surplus money and those who need money.

People are involved in the bank in the following ways:-

- i. Deposit surplus money into the bank.
- ii. Withdraw money from bank when required.
- iii. Issue check for payment to others rather than carry cash.
- iv. Issue demand draft for payment to others as it is guaranteed by the bank.
- v. Take a loan for personal and commercial purposes on a lower rate of interest than the market rate.
- vi. Repay the loan in easy monthly instalment taken from the bank.

12. Reserve bank of India supervises the Banking system due to the following reasons:

- i. The RBI monitors that the banks maintain a minimum cash balance to facilitate the peoples.
- ii. RBI ensures that the banks give loan not just to the profit making businessmen and traders but also to small cultivators, small scale industries and small borrowers.
- iii. Banks have to provide all the information to the RBI on how much they are lending, to whom, at what interest rates etc.

13. The modern forms of money are listed below:

- i. Paper currency
- ii. Coins
- iii. Demand deposits
- iv. Cheques

The rupee is accepted as a medium of exchange in the following ways:

- i. The currency is authorised by the government of the country.
- ii. In India, the Reserve Bank of India issues currency notes on behalf of the Central Government.
- iii. It is the law that has made the utilization of rupees legal in India which is fixed.

14. Banks and cooperatives should increase lending facilities in rural areas because of the following reasons:

- i. The formal sector i.e. the banks and the cooperatives need to engage more in the lending activities because of the disadvantages posed by the informal sector.

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- ii. The high cost of borrowing discourages many people who wish to start an enterprise. It also significantly reduces the income of the borrower as much of the earnings go into repayment of the loan.
 - iii. Dependence on informal sources of credit reduces.
 - iv. To provide more loan facilities to rural households.
 - v. To save rural people from exploitation. Often it leads to debt trap where the amount to be repaid is more than the borrower's income and he has to borrow more.
 - vi. It is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.
 - vii. The bank and the cooperative societies have to increase the lending facilities to improve the livelihood of the people in rural areas.

15. The main reasons for formal credit not being available to the rural poor due to which they are dependent on informal credit sources are

There is a need to expand rural credit so that the rural borrowers are encouraged to take loans from formal sources because:

- i. There is a lack of documents of employment, earnings etc. to convince banks that they will be able to repay the loan.
- ii. Absence of collateral and documentation is the main reason which prevents rural poor from getting bank loans.
- iii. Flexible loans in term of timelines, interest rates, procedural requirements etc. are provided to rural borrowers by informal sectors.
- iv. Rural borrowers depend on informal sources like moneylenders who charge them high rates of interest, which can sometimes drag them into a debt-trap. Thus it is necessary that banks and cooperatives increase their lending, particularly in the rural areas so that dependence on informal sources will reduce.
- v. Informal sectors exploit rural poor by putting them in debt-traps.
- vi. Formal sector must distribute loan equally, so that poor can benefit from the cheaper loans.