

Short Answer Questions

Q. 1. Give an example to show that double coincidence of wants is necessary in a barter system.

Ans. A shoe manufacturer wants to sell shoes in the market and buy wheat. The shoe manufacturer will first exchange shoes that he had produced for money, and then exchange the money for wheat. Imagine how difficult it would be if the shoe manufacturer had to directly exchange shoes for wheat without using money. He would have to look for a wheat growing farmer, who not only wants to sell wheat but also wants to buy the shoes in exchange. That is, both parties have to agree to sell and buy each other's commodities. This is known as double coincidence of wants.

Q. 2. How is modern form of currency accepted as a medium of exchange?

Or

Why is currency accepted as a medium of exchange?

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

Modern currency is not made of precious metals such as gold, silver and copper.

The modern currency is without any use of its own.

In India, Reserve Bank of India issues currency notes on behalf of the Central government.

As per the Indian law, no other individual or organisation is allowed to issue currency.

No individual in India can legally refuse a payment made in rupees.

Q. 3. “Banks are efficient medium of exchange.” Support the statement with arguments.

[CBSE (Delhi) 2017]

Ans. Banks are efficient medium of exchange:

(i) Demand deposits share the essential features of money.

(ii) The facility of cheque against demand deposit makes it possible to directly settle payment without the use of cash.

(iii) Demand deposits are accepted widely as a means of payment.

Q. 4. What are ‘demand deposits’?

Ans. Workers who receive their salaries at the end of each month have extra cash at the beginning of the month.

This extra cash is deposited with the bank by opening a bank account in their name.

Banks accept the 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.

Since the deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.

Q. 5. How are demand deposits accepted as a means of payment?

Ans. (i) Demand deposits offer another interesting facility. It helps in making the payment in cheque.

(ii) A cheque is a paper instructing the bank to pay a specific amount from the person's account to the other person or to the account holder.

(iii) Thus, we see that demand deposits share the essential features of money.

(iv) The facility of Cheques against demand deposits makes settlement of payments possible without using cash.

(v) Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.

Q. 6. State three disadvantages of the barter system.

Ans. (i) In a barter system, double coincidence of wants is required.

(ii) Here, the person is required to sell only what the other wishes to buy.

(iii) If both parties do not agree, the goods cannot be exchanged for goods.

Q. 7. Illustrate with examples the role of 'loan' in 'businesses'. [CBSE (Delhi) 2017]

Ans. Role of Loan

(i) Loan is a crucial element in economic life and plays a vital and positive role.

(ii) It helps to increase earnings. Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses of production, complete production on time, and thereby increase his earnings. Credit therefore plays a vital and positive role in this situation.

(iii) It makes a person economically better off than before.

(iv) It helps the poor and needy at the time of crisis.

(v) It helps the person to meet the ongoing expenses of production and complete production on time.

(vi) In another situation, because of the crop failure, loan pushes the person into a debt trap.

(vii) Examples of Salim and Laksmi could be given

Q. 8. Why are terms of credit required for a loan or credit?

Ans. (i) Terms of credit are required so that the borrower knows the conditions to take the loan.

(ii) The collateral, in the form of security or guarantee, is given to the lender until the loan is repaid.

(iii) If the borrower fails to repay the loan, the lender has all the rights to sell the assets or collateral to obtain the payment.

Q. 9. Why does the formal or informal sector asks for a collateral?

Ans. Every loan agreement specifies an interest rate which the borrower must pay to the lender along with the repayment of the principal.

In addition, lenders may demand a collateral or an asset that the borrower owns to use it as a guarantee until he repays the loan.

Interest rate, collateral and documentation requirement and the mode of repayment are the terms of credit required for formal or informal sectors for loans.

Q. 10. How are cooperatives functioning in the rural areas to solve the problem of credit?

Ans. Besides banks, the other major source of cheap credit in rural areas are the cooperatives.

Members of a cooperative, pool their resources for cooperation in certain areas.

Cooperatives form members, who accept deposits from its members. With these deposits as collateral, the cooperative obtains a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.

Q. 11. Identify transactions involving money in our day-to-day life.

Ans. There are several transactions involving money in any single day.

In many of these transactions, goods are being bought and sold with the use of money. It eliminates the need for double coincidence of wants.

In some of these transactions, services are being exchanged with money.

For some, there might not be any actual transfer of money taking place now but a promise to pay money later.

Q. 12. Why are transactions made in money?

Ans. A person holding money can easily exchange it for any commodity or service that he or she might want.

Thus, everyone prefers to receive payments in money and then exchange the money for things that they want.

Take the case of a shoe manufacturer. He wants to sell shoe in the market and buy wheat. The shoe manufacturer will first exchange shoe that he has produced for money and then exchange the money for wheat.

Q. 13. State any three advantages of an ATM.

Ans. (i) ATM is a provision called the Automated Teller Machine.

(ii) In case of an ATM, direct interaction with the bank is not required.

(iii) Money can be withdrawn from the ATM during the entire twenty-four hours in a day, whereas banks close their public dealings at a particular time, binding the depositor to come within that stipulated period.

Q. 14. Explain any three loan activities of banks in India. [CBSE (AI) 2017]

Ans. Loan activities of Banks in India:

(i) Banks use the major portion of the deposits to extend loans.

(ii) Banks make use of the deposits to meet the loan requirements of the people.

(iii) Banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers).

(iv) Banks charge a higher interest rate on loans than what it offers on deposits.

Q. 15. Which objects were used as money?

Ans. (i) Before the introduction of coins, a variety of objects were used as money. For example, since the very early ages, Indians used grains and cattle as money.

(ii) Thereafter, came the use of metallic coins—a phase which continued well into the last century.

Q. 16. How do farmers get into debt trap?

Ans. Farmers usually take crop loans at the beginning of the season and repay the loan after harvest.

Sometimes, the failure of the crop makes loan repayment impossible.

So, the farmers have to sell a part of their land to repay the loan. Credit in such a condition pushes the borrowers into a situation from which recovery is painful and they get into the debt trap.

Q. 17. Self-help Groups support has brought about a revolutionary change in the rural sector. [CBSE Sample Paper 2017]

Ans. (i) The idea is to organize rural poor, in particular women, into small Self Help Groups (SHGs) and pool their savings. Members can take small loans from the group itself to meet their needs. The group charges interest on these loans but this is still less than what the moneylender charges.

(ii) If the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of the group and is meant to create self – employment opportunities for the members. The SHG is responsible for repayment of the loan, hence, banks get ready to give loans without collateral.

(iii) Self-help, self-reliance and creating a support system and platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence etc.

Q. 18. Why do we need to expand formal sources of credit in India? Give three reasons.

[CBSE Sample Paper 2017]

Ans. (i) The cost of informal loans is much higher and often leads to a debt trap. Also, people who might wish to start a new enterprise by borrowing may not do so because of the high cost of borrowing in such a case.

(ii) Most loans from informal lenders carry a very high interest rate and do little to increase the income of the borrowers. Thus, it is necessary that banks and cooperatives increase their lending particularly in the rural areas, so that the dependence of the poor on informal sources of credit reduces.

(iii) It is important that the formal credit is distributed more equally so that the poor can benefit from the cheaper loans.

Q. 19. 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?

[CBSE Sample Paper 2016]

Ans. Dhananjay will be able to get loan from a formal source.

Arguments:

Banks are not present everywhere in rural India. Even when they are present, getting a loan from a bank is much more difficult than taking a loan from informal sources.

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.

Q. 20. Explain the values which a borrower should observe for the proper use of loan taken. [CBSE (Comptt.) 2016]

Ans. Borrower should observe the following for the proper use of loan taken:

- (i) Proper planning of both for borrowing and spending of loan amount.
- (ii) Use the loan for the purpose for which it has been borrowed.
- (iii) Follow the terms and conditions of the credit.
- (iv) To develop consciousness to repay the loan on time.

Q. 21. “The credit activities of the informal sector should be discouraged.” Support the statement with arguments. [CBSE (Delhi) 2016]

Ans. The credit activities of the informal sector should be discouraged because:

- (i) 85% of loans taken by the poor households in the urban areas are from informal sources.
- (ii) Informal lenders charge very high interest on their loans.
- (iii) There are no boundaries and restrictions.
- (iv) Higher cost of borrowing means a larger part of the earnings of the borrowers is used to repay the loan.
- (v) In certain cases, the high interest rate for borrowing can mean that the amount to be repaid is greater than the income of the borrower.
- (vi) This could lead to increasing debt and debt trap, therefore the credit activities of the informal sector should be discouraged.

Q. 22. “Deposits with the banks are beneficial to the depositors as well as to the nation”. Examine the statement. [CBSE (AI) 2016]

Ans. Deposits with the banks are beneficial to the depositors as well as to the nation.

Benefits to the Depositors

- (i) Banks accept the deposits and pay interest to the depositor.
- (ii) People's money is safe with the banks.
- (iii) People can withdraw the money as and when they require.

Benefits to the Nation

- (i) Banks use money of the depositor to afford loans.
- (ii) There is a huge demand for loans for various economic activities.
- (iii) Banks mediate between those who have surplus funds and those who are in need of these funds. Thus it helps in the economic development of the nation.

Q. 23. Credit has its own unique role for development'. Justify the statement with arguments. [CBSE (AI) 2016]

OR

Describe the vital and positive role of credit. [CBSE (Delhi) 2016]

Ans. "Credit has its own unique role for development"

- (i) Credit helps to increase earning and therefore the person is better off than before. For example, as in (Salim's case)
- (ii) Credit helps to earn money as well as capital for the future.
- (iii) Credit helps in the development of infrastructure of the society that leads to the overall development.

Q. 24. How is money transferred from one bank account to another bank account? Explain with an example. [CBSE (F) 2016]

Ans. Money Transfer from one bank account to another bank account:

If a person has to make a payment to his or her friend and writes a cheque for a specific amount, this means that the person instructs his bank to pay this amount to his friend. His friend takes this cheque and deposit in his account in the bank. This said amount is transferred from one bank account to another bank account.

Q. 25. How is the concept of Self Help Groups important for poor people? Give your view point. [CBSE (F) 2016]

Ans. Self Help Group

- (i) SHGs help in pooling the savings of the members, who are poor people.
- (ii) Members can get timely loans for a variety of purposes.
- (iii) They get loan at a reasonable rate of interest.
- (iv) It helps borrowers to overcome the problem of lack of collateral and documentation.
- (v) It saves them from exploitation of the money lenders.
- (vi) This interest income becomes an extra source of income of the members.