

**CBSE Test Paper - 01**  
**Chapter - 26 Money and Credit**

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1. Major portion of the deposits is used by banks for: **(1)**

- a. extending loans
- b. paying interest on loans
- c. setting up new branches
- d. paying taxes

2. Modern forms of money include: **(1)**

- a. paper notes
- b. silver coins
- c. copper coins
- d. gold coins

3. Repayment of the loan is dependent on the **(1)**

- a. Chances of winning a gamble
- b. Chances of winning a lottery
- c. Chances of winning a bet
- d. Income

4. What is the positive impact of credit? **(1)**

- a. Increase in tax collection of government
- b. Continuation of business
- c. People fall in debt trap
- d. Increase in profit of lenders

5. What is collateral? **(1)**

- a. Assets owned by the government
- b. An asset owned by the borrower
- c. Loan given by the bank

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d. Asset owned by the lender

6. Name the organization that conducted All India Debt and Investment Survey, 2003. **(1)**
7. Why payments made in rupees cannot be refused in India? **(1)**
8. Give one special feature that distinguish formal sector from informal sector. **(1)**
9. Name the system in which double coincidence of wants is essential feature. **(1)**
10. What is meant by Informal Sources of Credit? Mention the drawbacks of this system. **(3)**
11. "The credit activities of the informal sector should be discouraged." Support the statement with arguments. **(3)**
12. "Whether credit would be useful or not, it depends on the situation". Give two different examples in support of this statement. **(3)**
13. 'Credit has its own unique role for development'. Justify the statements with argument. **(3)**
14. How would you describe the organization and functioning of Self Help Group? **(5)**
15. What is debt trap? Why is it more rampant in rural areas? Give reasons. **(5)**

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**Answer**

1. a. extending loans

**Explanation:** There is a huge demand for loans for various economic activities. So, banks use the major portion of the deposits to meet the loan requirements of the people.

2. a. paper notes

**Explanation:** Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. Modern forms of money include currency : paper notes and coins.

3. d. Income

**Explanation:** Repayment of the loan is crucially dependent on the success of the business or venture for which the loan is taken and ultimately the income of it. Therefore if more income is generated in lesser time, loan will also be repayed in lesser period of time.

4. b. Continuation of business

**Explanation:** Credit helps the borrower in meeting the ongoing expenses of production and complete production on time. The economic needs of agricultural, commercial and industrial sector of the economy are adequately met by the credit.

5. b. An asset owned by the borrower

**Explanation:** Collateral is an asset owned by the borrower such as land, building, vehicle, livestock, deposit with the bank, etc. and uses this as the guarantee to the lender until the loan is paid. If the borrower fails to repay the loan, the lender has the right to sell the asset or the collateral to obtain the payment.

6. NSSO conducted All India Debt and Investment Survey, 2003 conducted All India Debt and Investment Survey, 2003.

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7. Rupees as in Indian currency is issued by the Reserve Bank of India. The law has legalized the use of rupee as a medium of exchange that cannot be refused by anyone as a form of payment.
  8. RBI supervises the functioning of the formal sources of credit while no any organisation is there to supervise the lending activities in informal sources of credit.
  9. In Barter system double coincidence of want is an essential feature.
  10.
    - A. Informal source of credit includes the credit from money lenders, friends, traders, employers and relatives. There are no rules and regulations of government are applied on these institutions.
    - B. These institutions charge very high interest rates or debtor has to surrender their asset to pay the debt back.
    - C. There is no govt organization to supervise the functioning of these sources of credit.
    - D. The sources of credit some time use unfair means to get their money back.
  11. 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. There is no organization which supervises the credit activities of lenders in the informal sector. They can lend at whatever interest rate they want and there is no one to stop them from using unfair means to get their money back. Hence, 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. 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.
    - vi. 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.
    - vii. This could lead to increasing debt and debt trap, therefore the credit activities of

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the informal sector should be discouraged.

12. Credit is a working capital which is required for production. The credit helps the farmers 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.

The examples are based on the risks in the situation and whether there is some support in case of loss.

The examples are given below:

- i. A manufacturer taking credit for supplying goods in the festival season usually has low risk, as the products are most likely to be sold completely which will raise his income.
- ii. A small farmer taking credit for crops has larger risks in case of crop failure. His only support in case of loss is the land, which he has to sell. So, this will make him poor.

Thus, it can be concluded that use of credit depends on the situation.

13. A major part of deposits is used as credit. Credit is an agreement in which the lenders supply the borrowers with money, goods and services in return for the promise of future payment.

Credit has its own unique role for development because of the following reasons:

- i. Credit helps to increase earning and therefore a person is better off than before. Cheap and affordable credit leads to higher incomes and many people could then borrow cheaply for a variety of needs.
  - ii. Farmers can buy agricultural inputs with a credit or set up the small scale and cottage industries.
  - iii. Credit helps to earn money as well as the capital for the future.
  - iv. Credit helps in the development of infrastructure of the society that leads to the overall development. People could set-up new industries or trade as well. All these activities lead to the development of the country.
14. A. Self Help Groups are the groups organized by the poor needy persons themselves, especially women to fulfill their credit and loan needs. A typical Self Help Group

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has 15 to 20 members, who meet and save regularly.

- B. Saving per member varies from Rs 25 to 100 Rs. or more, depending on the ability of the people to save.
- C. Members can take small loans from the group itself to meet their needs.
- D. The group charges interest on these loans but this is still less than what the money lenders charge.
- E. After a year or two, if the group is regular in saving, it becomes eligible for availing loan from the bank.
- F. Loan is sanctioned in the name of group and is meant to create self-employment opportunities for the members.

15. Debt Trap: Debt trap is a condition where the credit pushes the borrower into a situation from which the recovery is very hard, it is called debt trap. Here the borrower fails to repay the borrowed money to the lender and he has to sell his small portion of land to repay the loan. It is rampant in rural areas because of the following reasons:

- i. Rural areas small farmers give preference to the informal sources to take loan. The interest rates of these sources are very high.
- ii. Farmers take loan for crop production, equipment, fertilizers, If crop fails due to any reason they become unable to pay back the loan.
- iii. There is usually absence of any kind of support to the farmers in case of crop failure.
- iv. The main source of their income is production of crops. If it fails then they don't have any other source of income by which they can repay their debts.