1. **Explain the double coincidence of wants with an example?**

The doublecoincidence of wants is an economic situation, where two parties each hold an item that the other wants, and they exchange these items directly without any monetary medium. In Double Coincidence of Wants, the buyer and seller agree to sell and buy each other’s commodities.

E.g. Person “A’ wanted to sell mobile and he wanted to purchase a watch. Person ‘B’ wanted to buy a mobile and he has a watch to sell. In such a scenario, they can exchange the items without any monetary exchange.

1. **What is collateral? Why do banks ask for collateral while giving credit to a borrower?**Collateral is an asset that the borrower owns that stands as a security against the money borrowed. The lender owns the collateral or asset until the loan is repaired by the borrower. In case the borrower fails to repay the loan, the lender has the right to sell the asset or collateral. Examples of collaterals are land, building, vehicle, livestock, land documents, deposits with banks, etc.
2. **Modern currency is without any use of its own; then why is it accepted as a medium of exchange?**

Modern currency is accepted as a medium of exchange because it is certified for a particular denomination (10, 100, etc.) of the country by authorities set up by the Government. It can be used for buying any commodity which is on sale in the country. It is authorized by the government of the country. In India. It is issued by the Reserve Bank of India.

1. **What is the meaning of ‘barter system’?**

The barter system refers to the system of exchange of goods and services. It is the system by which one commodity is exchanged for another without the use of money. Before money was introduced, people practiced the barter system.
Example: A farmer could buy a dhoti from a weaver in exchange for grains he produced.

1. **How does money solve the problem of double coincidence of wants? Explain with an example of your own.**

Money solves the problem of double coincidence of wants because it acts as an intermediate in the exchange process. People may purchase anything with money. There is no need to have any goods or commodities for exchange. Money acts as a medium of exchange.

For example, a woman working as a school teacher gets money every month as salary. With that money (salary) she purchases vegetables from the market. She gives money for the vegetables and does not need any product for exchange as required under the double coincidence of wants. Thus, money acts as an intermediate in the exchange process

1. **What is the meaning of ‘investment’?**

Investment is buying of an asset in the form of a factory, a machine, land, and building, etc. (physical assets) or shares (monetary assets) for the purpose of making or sharing profits of the enterprises concerned.
Common investments are—buying land, factories, machines for faster production, buying small local companies to expand production, cheap labor, skilled engineers, IT personnel, etc.

1. **How do banks mediate between those who have surplus money and those who need money?**

 **Or
What does the Bank do with the deposits which they accept from the public?**
Banks accept deposits from 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 themselves. This is kept 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.

1. **Look at a 10 rupee note. What is written on top? Can you explain this statement?**
The following words are written at the top of a 10 rupee note:

“Reserve Bank of India Guaranteed By The Central Government”

“I promise to pay the bearer the sum of Ten Rupees.” Governor.

It implies that the notes are issued by the Reserve Bank of India.The Governor of the Reserve Bank promises to pay the bearer the sum of ten rupees. The notes have been guaranteed by the Central Government. The use of rupee is a legal currency and no one can refuse payment made in it. It is medium of exchange in India.

1. **What comprises ‘terms of credit’?**

Interest rate, collateral and documentation requirement, and the mode of repayment together comprise what is called the terms of credit. The terms of credit vary substantially from one credit arrangement to another. They may vary depending on the nature of the lender and the borrower.

1. **What do you understand by demand deposits?**
People need only some currency for their day-to-day needs. The extra cash or surplus money can be deposited in a bank by opening a bank account in their name. Banks accept deposits and pay interest on deposits. People have the provision to withdraw their money as and when they require it. Since money can be withdrawn on demand, these deposits are known as demand deposits.
* A demand deposit has the essential characteristic of money. It can be used as a medium of exchange.
* The facility of cheques against demand deposits makes it possible to make payments, without using cash.
* Since demand deposits are accepted widely as a means of payment along with currency, they constitute money in the modem economy.
1. **What is a cheque?**

When we deposit our money in a bank, the bank offers us the facility of using cheques. A cheque is a paper instructing the bank to pay a specific amount from the person’s account to the person in whose name the cheque has been made. The recipient of the cheque can deposit it in his own account in his bank. The money is transferred from one bank account to another bank account in a couple of days. The transaction is complete without any payment of cash. This is a safe mode of transferring money avoiding the possibility of any theft.

1. **Write about the functioning of Krishak Cooperative society**.
Krishak Cooperative functions in a village near Sonpur, Bihar. It has 2300 farmers as members. The Cooperative accepts deposits from its members. Using the deposit as collateral, the Cooperative obtains a large loan from the bank. The loan amount received from the bank is used as funds to provide loans to the members. Once the members repay the loans the amount is repaid to the bank and a fresh loan is taken from the bank. The Cooperative provides loans to its members for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.
2. **How do the banks generate income?**

Banks use the major portion of the deposits to extend loans. There is a huge demand for loans for various economic activities. Banks make use of the deposits to meet the loan requirements of the people. In this way, banks mediate between those who have surplus funds (the depositors) and those who are in need of these funds (the borrowers). Banks charge a higher interest rate on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income

1. **Why do we need to expand formal sources of credit in India?**
We need to expand formal sources of credit in India for the reasons mentioned below:
2. Compared to formal lenders, most of informal lenders charge much higher interest rates on loans like 3% to 5% per month i.e. 36% a year.
3. Besides the high-interest rate, informal lenders impose various other tough conditions. For example, they make the farmers promise to sell the crop to them at a low price. There is no such condition in the formal sector.
4. Informal lenders do not treat well with the borrowers. On the other hand, there is no such situation in the formal sector.
5. The Reserve Bank of India supervises the functioning of formal sources of loans. In contrast, there is no organization that supervises the credit activities of lenders in the informal sector.
6. Loans taken by poor people from informal lenders sometimes, lead them to a debt trap because of high-interest rates.
7. The formal sources of credit in India still meet only about half of the total credit needs of rural people.

So, it is necessary that the formal sources of credit expand their lending, especially in rural areas so that the dependence on informal sources of credit reduces as this will also help in the development of the country.

1. **Differentiate between the formal and informal sector loans in India?**

	1. The formal sector loans are typically provided by banks and cooperatives whereas the informal sector loans are provided by moneylenders, traders, employers, relatives and friends, etc.
	2. Compared to formal lenders, most of the informal lenders charge much higher interest rates on loans like 3% to 5% per month i.e. 36% a year.
	3. The informal lenders impose various other tough conditions. For example, they make the farmers promise to sell the crop to them at a low price. There is no such condition in the formal sector.
	4. Informal lenders do not treat well with the borrowers. On the other hand, there is no such situation in the formal sector.
	5. The Reserve Bank of India supervises the functioning of formal sources of loans. In contrast, there is no organization that supervises the credit activities of lenders in the informal sector.
2. **Why are most of the poor households deprived from the formal sector of loans?**

Most of poor households are deprived of formal sector loans because of a lack of proper documents and the absence of collateral.

1. **In what ways, does the Reserve Bank of India supervise the functioning of banks? Why is this necessary?**
(1) The Reserve Bank of India supervises the functioning of banks in the following ways:
* The RBI monitors that the banks actually maintain the required cash balance.
* It sees that the banks give loans not-just to profit-making businesses and traders but also to small cultivators, small-scale industries, small-borrowers.
* The banks submit information to the RBI about loans sanctioned to different categories of persons along with terms and conditions of the loans. In this way, RBI sees that the loans are sanctioned to all including the poor.

(2) The supervision of the Reserve Bank of India over the functioning of the banks is necessary. It is to know how much the banks are lending, to whom and at what interest rate. It is to ensure that the banks do not exploit the borrowers like the moneylenders in the rural areas

1. **How do cooperatives function?**
Cooperatives have many members. It accepts 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 its members. Once these loans are repaid, another round of lending takes place
2. **Cheap and affordable credit is crucial for the country’s development. Justify.**

Cheap and affordable credit is crucial for the country’s development. The various types of loans or credits can be grouped as formal sector loans and informal sector loans. Among the former are loans from banks and cooperatives. The informal lenders include moneylenders, traders, employers, relatives, and friends.

The formal sector gives loans on a lesser interest rate than the informal sector. But bank loans require proper documents and collateral. Absence of collateral is one of the major reasons why bank loans are not available to small farmers and people who wish to start small industries.

Compared to the formal lenders, most informal lenders charge much higher interest on loans. Thus, the repayment cost of informal loans is much higher and a larger part of the earnings of the borrowers is used to repay the loan.

For these reasons, banks and cooperative societies, the main formal lenders need to lend more to the poorer section of people. Many people could then borrow cheaply for a variety of needs. They could grow crops, do business, set up small-scale industries etc. They could set up new industries or trade in goods. This would lead to higher incomes for the poor and the development of the country.

1. **Analyse the role of credit for development.**

Credit plays a crucial role in a country’s development. By sanctioning loans to developing industries and trade, banks provide them with the necessary aid for improvement. This leads to increased production, employment, and profits. Also for the upliftment of the poor in the country.

The loans from the informal sector include high-interest rates that may be more harmful than good. For this reason, it is important that the formal sector gives out more loans so that borrowers are not duped by moneylenders, and can ultimately contribute to national development.

1. **Manav needs a loan to set up a small business. On what basis will Manav decide whether to borrow from the bank or the moneylender? Discuss.**
Manav will decide to borrow from the bank or the moneylender on the following basis :
	1. Rate of interest.
	2. Terms for repayment of loan,
	3. Other conditions such as collateral.

Wherever the above conditions favor him or are more satisfactory, he will take loan from them accordingly. Generally, in India, the terms and conditions that are offered in the formal sector i.e., the banks and cooperatives are better than in the informal sector i.e., moneylenders who charge a much higher rates of interest

1. **In India, about 80 percent of farmers are small farmers, who need credit for cultivation.**
**(a) Why might banks be unwilling to lend to small farmers?
(b) What are the other sources from which the small farmers can borrow?
(c) Explain with an example how the terms of credit can be unfavourable for the small farmer.**

**(d) Suggest some ways by which small farmers can get cheap credit.**
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(a) Banks might not be willing to lend to small farmers because they don’t have collateral security to deposit in the bank. Some of these farmers are not in the position of paying the loan, due to already existing loans.

(b) The other sources of borrowing are from moneylenders, employer, self-help group, landlord, etc.

(c) For example, if a person takes a loan from his/her landlord on the basis of security of his/her land. At the end, be/she is not able to pay the loan then the landlord can sell the land and get his money back.

(d) Small farmers can get cheap credit with the help of a self-help group (SHGs) from the bank and they can repay the loan easily after 3 or 4 years. The rate of interest is also low as compared to other sources of credit.

1. **Write a short note on the Grameen bank of Bangladesh.**

Grameen Bank of Bangladesh is the brainchild of Professor Muhammad Yunus who started this in the 1970s. Nearly all its borrowers are women and belong to the poorer section of society. These borrowers have proved that not only are poor women reliable borrowers, but they can start and run variety of small income generating activities successfully.

1. **What is the barter system and double coincidence of wants?**

In the olden days, when the modern currency was not in vogue, people had to sell and buy each other’s commodities. This was called the barter system. For instance, if a cloth merchant wants to buy rice, he has to find a farmer who wants to buy clothes in exchange for the rice. That is, both parties have to agree to sell and buy each others commodities. This is known as double coincidence of wants. In a barter system where goods are directly exchanged without the use of money, double coincidence of wants is an essential feature.