



Multiple Choice Questions

1. **Demonetisation encouraged people for:**
 - (a) Barter system
 - (b) Closure of bank accounts
 - (c) Gold exchange
 - (d) Digital transaction
2. **Money acts as:**
 - (a) Bills of exchange
 - (b) Investment
 - (c) Collateral
 - (d) Medium of exchange
3. **Poor are unable to get bank loans because of:**
 - (a) Complex procedure
 - (b) High rates of interest
 - (c) Absence of collateral
 - (d) Lack of trust on banks
4. **Debt trap occurs in:**
 - (a) Formal sector loans
 - (b) Informal sector loans
 - (c) Secondary sector loans
 - (d) Private sector loans
5. **Why is it difficult taking a loan from a bank than taking a loan from informal source?**
 - (a) Bank loan requires proper documents and collateral
 - (b) Bank does not know the borrower
 - (c) Banks often harass the borrowers
 - (d) Informal sources provide loans at cheaper rates
6. **What is a cheque?**
 - (a) Paper making payment
 - (b) Collateral
 - (c) Paper instructing the bank to pay a specific amount
 - (d) A term of credit
7. _____ is the success story that met the credit needs of the poor, at reasonable rates, in Bangladesh.
 - (a) Common Bank
 - (b) Cooperative Bank
 - (c) Grameen Bank
 - (d) Reserve Bank
8. **Money is accepted as a medium of exchange because the currency is authorised by:**
 - (a) World bank
 - (b) Central bank
 - (c) The government of the country
 - (d) People of the country
9. **In rural areas, farmers usually take crop loans:**
 - (a) at the end of the season
 - (b) in the case of a calamity
 - (c) in case of crop failure
 - (d) at the beginning of the season

10. **Informal money lenders charge a higher rate of interest on loans because:**

- (a) They are not registered
- (b) They wish to do so
- (c) To make more profits
- (d) No organisation to supervise

Fill in the blanks :

11. Central bank of India is called _____.
12. _____ is a convenient medium of exchange.

True / False

13. Debt trap is a positive outcome of credit.
14. Credit refers to an agreement between lender and borrower.

Very Short Type Questions

15. Explain the meaning of Currency.
16. What is demand deposit?

Short Type Questions

17. How do double coincidence of wants arise?
18. "Poor households still depend on informal sources of credit". Support the statement with examples.

Essay Type Questions

19. What is the idea behind forming the Self Help Groups or the SHGs? Explain the functioning of the Self Help Groups or the SHGs.
20. Which are the two major sources of formal credits in India? Why do we need to expand the formal sources of credit?

HOTS

21. **Assertion (A) :** Informal sources of credit often charge high interest rates.
Reason (R) : Informal lenders like moneylenders often take advantage of borrowers' lack of access to formal credit.
- (a) Both A and R are true, and R is the correct explanation of A.
 - (b) Both A and R are true, but R is not the correct explanation of A.
 - (c) A is true, but R is false.
 - (d) A is false, but R is true.



1. (d)

Demonetisation refers to the withdrawal of currency from circulation. It encourages people for digital transactions. Digital transactions were promoted to reduce the requirement of cash for transactions. Digital transactions started by using the bank to bank transfer through the internet or mobile phones, cheques, ATM cards, credit cards, and point of sale (POS) swipe machines at shops.

2. (d)

Money may be defined as anything which is generally accepted by the people in exchange of goods and services or in repayment of debts. Money acts as a medium of exchange since it acts as a medium in the process of exchange of goods.

3. (c)

Banks give loans on the basis of terms of credit and collateral is one of the parts of terms of credit, since the poor do not have collateral which they could use as a guarantee to a lender until the loan is repaid. so, they do not get bank loans.

4. (b)

Debt Trap is a situation in which a debt is difficult or impossible to repay, typically because high interest payments prevent

repayment of the principal. Since interest payments are higher in the informal sector, therefore, debt trap occurs in informal sector loans.

5. (a)

Informal lenders know the borrowers personally and hence are willing to give loan without collateral (it is an asset that the borrower owns (such as land, building, vehicles, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid). They also do not keep records of transactions which makes the borrowers comfortable taking a loan from them.

6. (c)

A cheque is a paper which instructs the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.

The person writing the cheque, known as the drawer, has a transaction banking account (often called a current, cheque, chequing, or checking account) where their money is held.

7. (c)

Grameen Bank of Bangladesh was founded in October 1983. It is one of the biggest success stories in reaching the poor to meet their credit needs at reasonable rate

8. (c)

In a country, the government authorises a standard currency as a medium of exchange in the country and it legalises money as a medium of payment that cannot be refused in settling transactions. In India, the first paper currency was introduced in 1861 by the govt.

9. (d)

Farmers usually take crop loans at the beginning of the season in order to meet their requirements, then they repay it after the harvest.

10. (d)

There is no organisation which supervises the credit activities of lenders in the informal sector. There is no one to stop them from using unfair means to get their money back. So they charge a higher rate of interest as compared to formal money lenders.

11. Reserve Bank of India

12. Money

13. False

14. True

15. Currency acts as an intermediary and is necessary to perform as a common denominator.

16. A deposit with a bank that can be withdrawn whenever the depositor wants to do so is known as a demand deposit. Demand Deposits also known as Current Account deposits provide the depositor with the liberty to withdraw

money at any point of time. That is, the account holder of the demand deposits can demand these deposits at any point of time as per their discretion and convenience. Such deposits do not offer any rate of interest.

17. The situation of double coincidence of wants arises when both parties agree to sell and buy each other's commodities. This simply means what a person desires to sell is exactly what the other wishes to buy.

18. Poor households still depend on informal sources of credit because of the following reasons:

- i. In rural areas, banks are not present everywhere.
- ii. Even if Banks are present, getting a loan from the bank is much more complicated than taking a loan from informal sources.
- iii. Proper documentation and collateral are required by Public sector banks or megabanks.
- iv. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.
- v. Informal lenders such as money lenders know the borrowers personally and they are willing to give a loan without collateral.

19. The basic idea behind the formation of SHGs is to create self-employment for the poor, particularly rural poor women.

The SHGs help poor borrowers to overcome the problem of a lack of collateral. The functioning of self-help groups is given in the following points:

- i. A typical SHGs can have 15 to 20 members usually women belonging to the same village.
- ii. The main motive of the SHG is to pool the savings of the poor people.
- iii. Saving per member can vary from Rs 25 to Rs 100 or more depending on the ability of the people, and the strength of the group.
- iv. The SHGs provide loans to their members at a reasonable rate.
- v. After a year or two, if the group is regular in savings, it becomes eligible for bank loans.
- vi. The loan is sanctioned in the name of the group with the main motive to create self-employment opportunities for the members.
- vii. In the recent years, many commercial and cooperative banks have provided loans to these SHGs for releasing mortgaged land, for meeting working capital needs, for housing materials, for acquiring assets like sewing machines, handlooms, cattle, etc.

20. The two major sources of formal sources of credit are:

- i. Banks and
- ii. Cooperatives

Need to expand formal sources of credit are:

- i. To save the poor farmers and workers from the exploitation when they take loans from informal sources and get into a debt trap.
- ii. Formal credit can fulfill various needs of the people through providing cheap and affordable credit.
- iii. 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.
- iv. 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.

21. (a)

Both A and R are true, and R is the correct explanation of A.