CHAPTER – 3 | Money And Credit

QUIZ-01

1. What eliminates the need for double coincidence of wants?
A. Demand deposits
B. Barter system
C. Money
D. Cheques (C)

Explanation : Money acts as a medium of exchange, allowing transactions without both parties needing to want what the other has.

2. Who issues currency notes in India?
A. State Bank of India
B. Ministry of Finance
C. Reserve Bank of India
D. Supreme Court (C)

Explanation : The Reserve Bank of India issues currency on behalf of the central government.

3. What are demand deposits?
A. Loans taken from banks
B. Fixed deposits
C. Deposits that can be withdrawn anytime
D. Deposits used for paying salaries (C)

Explanation : Demand deposits are bank deposits that can be withdrawn by the account holder at any time.

4. What role do banks play in the economy?
A. Only keep people's money safe
B. Print new currency
C. Mediate between depositors and borrowers
D. Regulate money supply (C)

Explanation : Banks accept deposits and give loans, acting as intermediaries between those who have money and those who need it.

5. What is collateral?
A. Loan interest rate
B. Legal agreement for a loan
C. Asset given to secure a loan
D. Repayment period (C)

Explanation : Collateral is an asset like land or house pledged by a borrower to secure a loan.

6. Why do banks keep only a small portion of deposits as cash?
A. They don't have enough space
B. RBI regulation
C. Only some depositors withdraw money daily
D. To avoid theft (C)

Explanation : Since not all depositors withdraw money at once, banks keep a small portion as cash and lend out the rest.

7. What is the key difference between formal and informal credit sources?
A. Interest rate
B. Size of loan
C. Number of people involved
D. Use of cash (A)

Explanation : Formal sources like banks offer lower interest rates and are regulated, while informal sources charge high interest.

8. What happens in a debt-trap?
A. Loan is paid off quickly
B. Interest rate is reduced
C. Borrower takes a new loan to repay the old one
D. Bank forgives the loan (C)

Explanation : In a debt-trap, the borrower cannot repay and keeps borrowing again, falling deeper into debt.

9. What is the main benefit of Self Help Groups (SHGs)?
A. Free loans
B. High-interest income
C. Access to credit without collateral
D. Employment in cities (C)

Explanation : SHGs provide small loans to poor members without requiring collateral and help them become self-reliant.

10. Why do poor households rely more on informal sources of credit?
A. They get higher amounts
B. No need for documents and collateral
C. Interest is lower
D. They trust moneylenders more (B)

Explanation : Poor households often lack collateral and documents required by banks, so they turn to informal sources.