DIFFERENT FORMS OF MONEY

SUMMARY:

The history of money and how various forms were used at different times is an interesting story. At this stage the purpose is to allow students to realize the social situation in which these forms were used. Modern forms of money are linked to the banking system. This is the central idea of the first part of the chapter. Credit is a crucial element in economic life and it is therefore important to first understand this in a conceptual manner.

The chapter deals with the benefits and drawbacks of the various credits available to people.
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<th>S.N</th>
<th>QUESTIONS</th>
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<tr>
<td>1</td>
<td><strong>Define the term ‘Money’. How does money serve as a medium of exchange?</strong> OR <strong>How does the use of money make it easier to exchange things?</strong></td>
<td>4</td>
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| Ans. | 1. Money may be defined as anything which is generally accepted as a medium of exchange of goods and services or in payment of debts.  
     2. Medium of exchange or medium of payment is the basic function of money. People exchange goods and services through the medium of money.  
     3. A person holding money can easily exchange it for any commodity or services he might want.  
     4. Money solves the problem of double coincidence of wants by acting as a medium of exchange. |     |
| 2   | **Explain ‘Barter System’. What were its demerits?**                        | 5   |
|     | 1. Barter system was the direct exchange of goods against goods without the use of money.  
     | Eg. When a weaver gives clothes to the farmer in return for getting wheat from the farmer.  
     | Demerits of Barter System. (Any Two points)  
     | 1. Lack of double coincidence of wants  
     | 2. Absence of common measure of value  
     | 3. Lack of divisibility  
     | 4. Difficulty in storing wealth  
     | 5. Lack of satisfactory unit to engage in contracts |     |
| 3   | **What are the functions of money?**                                       | 4   |
|     | 1. Money acts as a medium of exchange in goods and services and in payment of debts.  
     | 2. Money is used as a measure of value.  
     | 3. It is a Standard of Demand Payments.  
     | 4. It acts as store of value. |     |
| 4   | **What is double coincidence of wants? Why is the ‘Lack of double coincidence of wants’ a main demerit of barter system? Explain with an example. (CCE- 2011)** | 3   |
|     | 1. Double coincidence of wants is an essential feature of barter exchange system.’  
     | Simultaneous fulfillment of mutual wants by buyers and sellers ‘is known as double coincidence of wants.  
     | 2. It means, what a person desires to sell is what the other person wishes to buy.  
     | 3. In barter exchange, this double coincidence of wants is often lacking. Eg. The producer of wheat may want to buy shoes in exchange of his wheat. But he may find it difficult to get a shoe maker who is willing to exchange his shoes for wheat. Thus a seller has to find out a person who wants to buy the seller’s goods and the same time who must have what the seller wants. |     |
5. How does money eliminate the problem of lack of double coincidence of wants? Give an example. (CCE-2015)

ANS.

1. Double coincidence wants is the most difficult problem of barter system.
2. If wants do not match between two persons, no exchange of goods will take place.
3. A person holding money can easily exchange it for any commodity or services he might want.
4. Money solves the problem of double coincidence of wants by acting as a medium of exchange.
5. E.g. If a shoe manufacturer wants wheat he can sell his shoes that he has produced for money and then exchange the money for wheat.

6. Name a few modern forms of money.

ANS: Currency-Paper and Coins, Cheque, Demand Draft/Demand Deposits, Postal Order, Credit and Debit Cards etc.

7. „The modern currency like paper notes and coins is without any use of its own.” Then why is it accepted as a medium of exchange?

1. It is accepted as a medium of exchange because the currency is authorized by the government of the country.
2. In India, the Reserve Bank of India issues currency notes on behalf of the Central Government.
3. As per Indian law, no other individual or organization is allowed to issue currency.
4. The law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India.
5. No individual in India can legally refuse a payment made in rupees.

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<th>What is a demand deposit? Why is it considered as money?</th>
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<td>1. Deposits in a bank which are payable to the depositor on demand are called demand deposits.</td>
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<td>2. The people need only some currency for their daily needs, the surplus money can be deposited with banks by opening a bank account in their name.</td>
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<td>3. Demand deposits are payable on demand through cheques or withdrawal slips.</td>
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<td>4. The facility of cheques against the withdrawal makes it possible to directly settle payments without the use of cash.</td>
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<td>5. Since demand deposits are accepted widely as a means of payment, they are considered money in the modern economy.</td>
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<th>Define a cheque. How does it act as money?</th>
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<td>ANS.</td>
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<tr>
<td>1. 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.</td>
</tr>
<tr>
<td>2. For payment through a cheque, the payer who has an account with the bank makes out a cheque for a specific amount. The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.</td>
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<tr>
<td>3. Eg. if a Shoe manufacturer has to make a payment to the leather supplier, then he writes a cheque for a specific amount. This means that the shoe manufacturer instructs his bank to pay this amount to the leather supplier. The leather supplier takes this cheque and deposits it in his own account in the 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.</td>
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<th>List out some details that are to be filled in a cheque.</th>
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<td>ANS. The Cheque is a document in which the following details are to be filled by the person issuing the cheque: name of the person to whom it is drawn, date, amount in rupees (both in figures and words) account number, bank branch, and signature.</td>
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![Diagram](https://via.placeholder.com/150)
The Depositor and the Borrower

11 How do the banks mediate between those who have surplus money and those who are in need of money? OR
What do the Banks do after accepting the deposits from the public? OR
Explain the loan activities of banks.

ANS.
1. After the Banks accept deposits from the public they keep only a small proportion of their deposits as cash with themselves.
2. For example, banks in India these days hold about 15% of their deposits as cash. This is kept as provision to pay the depositors who might come to withdraw money from the bank on any given day.
3. 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).
4. Banks charge a higher rate of interest on loans than what they offer to the public for deposits.
5. The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

12 What is credit (loan)? Analyze the role of credit for development. (CCE- 2012)

ANS.
1. Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods, or services in return for the promise of future payment.
2. The credit helps the people to meet the ongoing expenses of production, or complete production on time and increase earning.
3. In rural areas, the main demand for credit is for crop production. Crop production involves considerable costs on seeds, fertilizers, pesticides, water, electricity etc.
4. The progress of business activity is fully linked with credit system.
5. The credit helps the farmers and businessmen to increase production and increase the national income.

13 “Credit Helps as well as harms and pushes the farmers into a debt trap”. Explain.

ANS.
1. In one situation credit helps to increase earning and therefore the person is better off than before.
2. In another situation, because of the crop failure, credit pushes the person into a debt trap
3. For instance for a forth coming festival season if a shoe manufacturer has received an order from a large trader in town for 3000 pairs of shoes to be delivered in a month time.
4. In this case he obtains credit to meet the working capital needs of production. If he is able to
supply goods on time, he gets profit and credit is useful to him.

5. When a Farmer takes a loan or Credit, the repayment has to be made from the income from farming; sometimes due to failure of the crop the repayment of the loan becomes impossible. The farmers may have to sell a part of their land to repay the loan or may have to take another credit from another source. Credit in this case pushes the borrower into a situation from which recovery is painful.

14 Define the term Collateral

Collateral is an asset that the borrower owns -such as land, building, vehicle, live stock, deposits with banks’- and uses as a guarantee to a lender until the loan is paid.

15 What does terms of credit mean? (CCE-2015)

ANS

1. While giving loan, the lender specifies certain terms and conditions relating to the loan to be followed by the borrower. This known as terms of credit.
2. It includes interest rate, collateral, and documents required and mode of payment.
3. Depending on the nature of the borrower and the lender, these terms may differ.

16 Why do lenders ask for collateral while lending?

Ans.

1. Every loan agreement specifies an interest rate which the borrower has to pay with the principal amount. In addition, lenders may demand collateral as security against loans.
2. Collateral refers to use of assets by the borrower as a guarantee to a lender until the loan is paid. Eg. Land, Deposits with banks etc.
3. The lender asks for collateral to safeguard his money. Without security, a lender may face loss if the borrower does not pay the loan back. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain the payment.
1. What are the various uses of credit in rural area?
2. Compare the terms of credit for the small farmer, the medium farmer and landless agricultural labourer.
3. Why will Arun have a higher income from cultivation compared to Shyamlal?

18 What are the two sources of credit? Describe any sources of formal and informal credit in India. OR What are the differences between Formal Source of Credit and Informal Source of Credit? (CCE-2012)

Ans.

FORMAL SECTOR/ SOURCE OF CREDIT:
1) It includes loans from bank and cooperatives. Interest rate is low. RESERVE BANK OF INDIA supervises the functions of the formal sector.
2) The urban households depend largely on formal sector.

INFORMAL SECTOR/ SOURCE OF CREDIT:
3) It includes traders, money lenders, relatives, land lords, etc.
4) The rate of interest is higher compared to formal sector. There is no organization to supervise the lending activities of informal sector of credit.
5) In rural area, people dependant on informal sector of credit.

19 Why is the demand for Credit high in Rural Areas? Explain.

ANS.
1. In rural areas, the main demand for credit is for crop production. Crop production involves considerable costs on seeds, fertilizers, pesticides, water, electricity, repair of equipment, etc.
2. There is minimum stretch of three to four months between the time when the farmers buy these inputs and when they sell the crop.
3. Farmers usually take crop loans at the beginning of the season and repay the loan after harvest.
4. Repayment of the loan is crucially dependent on the income from farming. The failure of the crop can make the repayment almost impossible.

20 Study Graph No.1 given in page no.48 and answer the following questions in note book.

1. Name two formal and informal sectors of credit.
2. What is the share of formal sector in total credit?
3. What is the share of money lenders in informal sector of credit?

21 In what way does the RBI supervise the functions of Banks in India? (CBSE-2010)

1. The Reserve Bank of India supervises the functioning of formal sources of loans. For instance, the banks maintain a minimum cash balance out of the deposits they receive. The RBI monitors that the banks actually maintain the cash balance.
2. The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.
3. Periodically banks have to submit information to the RBI on how much they are lending to whom, at what interest rate etc. Central Bank is the lender or the last resort. Whenever banks are short of funds, they take loans from the Central Bank.
The cost to the borrower of informal sector is much higher. Explain the statement.

What are the drawbacks of borrowing from the informal lenders? Explain.

1. Higher cost of borrowing means a larger part of earning of the borrower is used for repaying the loan.
2. Informal lenders charge a higher rate of interest compared to the formal lenders. There is no organization to supervise their credit activities. There is no one to stop them from using unfair means to get their money back.
3. Due to the high rate of interest the amount to be repaid is greater than the income of the borrower, leading the borrower into a debt trap.

Why are the poor households dependent upon the informal sources of credit?

1. Banks are not present everywhere in rural India. Getting loan from a bank is much more difficult than taking a loan from informal sources because of the necessity of various documents.
2. Absence of Collateral is one of the major reasons which prevents the poor from getting bank loans.
3. On the other hand the moneylenders know them personally hence are willing to give the loan without a collateral. The Borrowers may be able to approach the moneylenders even without repaying their previous loans.

Why do we need to expand the formal sources of credit in India? OR Why should credit be available at reasonable rates? OR What are the advantages of borrowing from formal sector? (CCE-2011)

1. Banks and Cooperative Societies are the main source of formal sector of credit. The rate of interest charged by formal lenders is much less compared to the informal lenders. If people can borrow at cheaper rates it leads to increase in income.
2. People can grow crops, set up small-scale industries, do business or trade in goods. Hence cheap and affordable credit provided by the formal lenders is crucial for the country’s development.
3. The credit provided by the formal sector meets only about half of the total credit needs of the rural people. The remaining credit needs are met from informal sources; most loans from informal sources carry high interest rates and do little to increase the income of the borrowers.

4. While formal sector loans need to expand, it is also necessary that everyone receives these loans.

5. At present only rich households are getting formal credit. It is important that formal credit is distributed more equally so that the poor can benefit from cheaper loans.

25. **What are Self Help Groups?** Briefly explain the role played by SHG’s in providing credit to the poor rural households. (CCE-2013)

1. SHG’s are a new source of providing loans to the rural poor particularly women. It may consist of 15-20 members belonging to a neighborhood who meet and save regularly. Their savings may vary from Rs 25 to Rs 100 or more depending on the ability to save. They provide loans to its members according to necessity.

2. The rate of interest charged by SHG’s is lesser than that charged by money lenders. The SHG helps the borrowers overcome the problem of lack of collateral.

3. Small loans are provided to members for instance meeting working capital needs such as buying seeds, raw materials, fertilizers or cloth.

4. The group decides on the loans to be granted— the purpose, amount, interests to be charged, repayment schedule etc.

5. The reason why banks are lending to these groups even without collateral is that in any case of non-repayment of loan, the members of the group seriously follow it up.

6. They are the building blocks of organization of the rural poor. They also discuss certain social issues such as health, nutrition and domestic violence.

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**ANALYSE THE FOLLOWING PICTURES TO UNDERSTAND THE WAY SELF-HELP GROUPS WORK**

![Diagram of Self Help Groups](image1.png)

![Diagram of Self Help Groups](image2.png)