

Class X - Social Science

MONEY AND CREDIT

CBSE NOTES

MONEY AND CREDIT - Challenge Worksheet

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Challenge Questions

1. Evaluate the role of money as a medium of exchange in eliminating the double coincidence of wants. Provide examples to illustrate your answer.

Hint: Consider how money simplifies transactions compared to barter systems.

Solution: Money acts as an intermediary in transactions, allowing goods and services to be exchanged without the need for a direct barter. For example, a shoe manufacturer can sell shoes for money and then use that money to buy wheat, without needing to find someone who wants shoes and has wheat to trade. This eliminates the need for double coincidence of wants, making transactions more efficient.

2. Discuss the impact of demonetization on the Indian economy, focusing on both positive and negative aspects.

Hint: Think about the immediate and long-term effects on different sectors of the economy.

Solution: Demonetization aimed to reduce black money, counterfeit currency, and promote digital transactions. Positively, it increased tax compliance and digital payments. Negatively, it caused short-term liquidity crises and affected small businesses and daily wage workers who relied heavily on cash transactions.

3. Compare and contrast formal and informal sources of credit in rural India, highlighting the advantages and disadvantages of each.

Hint: Consider the accessibility, cost, and risks associated with each source.

Solution: Formal sources like banks and cooperatives offer lower interest rates and regulated terms but require collateral and documentation. Informal sources like moneylenders are more accessible but charge high interest rates and can lead to debt traps. For example, a small farmer may prefer a moneylender for quick loans despite the high cost.

4. Analyze the concept of collateral and its significance in securing loans from formal financial institutions.

Hint: Think about how collateral affects loan accessibility for different economic groups.

Solution: Collateral is an asset pledged by a borrower to secure a loan. It reduces the risk for lenders, as they can seize the asset if the loan is not repaid. For instance, a house or land can be used as collateral for a bank loan. However, lack of collateral excludes many poor borrowers from accessing formal credit.

5. Explain how Self Help Groups (SHGs) empower rural women economically and socially.

Hint: Consider the dual role of SHGs in financial inclusion and social empowerment.

Solution: SHGs pool savings and provide loans to members at reasonable rates, enabling women to start small businesses or meet emergencies. They also serve as platforms for discussing social issues like health and education. For example, women in SHGs in Gujarat have improved their financial independence and community standing.

6. Critically assess the role of the Reserve Bank of India (RBI) in regulating the credit system in India.

Hint: Think about the balance between regulation and accessibility in credit systems.

Solution: The RBI supervises banks, ensures they maintain cash reserves, and monitors loan distribution to prevent exploitation. It promotes financial inclusion but faces challenges in reaching the informal sector. For example, the RBI's directives on priority sector lending aim to increase credit to underserved areas.

7. Discuss the potential risks and benefits of digital transactions in a country like India.

Hint: Consider the digital divide and its impact on transaction modes.

Solution: Digital transactions reduce cash dependency, increase transparency, and are convenient. However, they require technological infrastructure and literacy, which are lacking in rural areas. For instance, while urbanites benefit from UPI, rural folk may struggle due to poor internet connectivity.

8. Evaluate the effectiveness of cooperative societies in providing affordable credit to farmers in India.

Hint: Think about the grassroots level impact versus systemic challenges.

Solution: Cooperative societies offer low-interest loans and are member-driven, making them accessible to farmers. They help reduce dependence on moneylenders. For example, Krishak Cooperative provides loans for agricultural inputs, benefiting small farmers. However, their reach is limited by bureaucratic hurdles.

9. Explain how credit can be a boon and a bane for small farmers, using real-life scenarios.

Hint: Consider the dependency on monsoon and market prices in agriculture.

Solution: Credit helps farmers buy inputs and invest in crops, boosting income. However, crop failure can lead to debt traps, as seen with Swapna who had to sell land to repay loans. Timely and affordable credit is crucial to prevent such situations.

10. Propose strategies to increase the share of formal credit in rural areas, ensuring it reaches the poorest households.

Hint: Think about barriers like lack of awareness and collateral requirements.

Solution: Strategies include simplifying loan procedures, increasing banking infrastructure, and promoting SHGs. For instance, linking SHGs to banks can bridge the gap. Financial literacy campaigns can also empower the poor to access formal credit.

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