

Class X - Social Science

**MONEY AND CREDIT**

# CBSE NOTES

## **MONEY AND CREDIT - Mastery Worksheet**

*Advance your understanding through integrative and tricky questions.*



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# Mastery Questions

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## 1. Explain how money acts as a medium of exchange and eliminates the need for double coincidence of wants with an example.

*Hint: Think about how money simplifies the exchange process compared to barter system.*

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**Solution:** Money acts as a medium of exchange by providing a common measure of value that is accepted by all parties in an economy, thus eliminating the need for double coincidence of wants. 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 to trade wheat for shoes directly. This process simplifies transactions and facilitates trade.

## 2. Compare and contrast formal and informal sources of credit in India.

*Hint: Consider the terms of credit, regulation, and accessibility for both sources.*

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**Solution:** Formal sources of credit include banks and cooperatives which are regulated by the Reserve Bank of India, offer loans at lower interest rates, and require collateral. Informal sources include moneylenders, traders, and relatives who charge higher interest rates, do not require collateral, but are more accessible to the poor. The main difference lies in regulation, interest rates, and accessibility.

## 3. Describe the role of the Reserve Bank of India in the Indian banking system.

*Hint: Think about supervision, regulation, and currency issuance.*

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**Solution:** The Reserve Bank of India (RBI) supervises the functioning of formal sources of loans, ensures that banks maintain a minimum cash balance, monitors banks' lending activities to ensure they lend to priority sectors like small-scale industries and agriculture, and issues currency notes on behalf of the central government. It plays a crucial role in maintaining the stability and efficiency of the financial system.

#### 4. Analyze the impact of high-interest rates on borrowers in the informal sector.

*Hint: Consider the long-term financial health of the borrower.*

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**Solution:** High-interest rates in the informal sector increase the cost of borrowing, leading to a larger portion of the borrower's income being used to repay loans. This can result in less income for personal use, increased debt, and in severe cases, a debt trap where the borrower is unable to repay the loan and falls into a cycle of borrowing more to repay previous loans.

#### 5. Explain the concept of 'terms of credit' with an example.

*Hint: Think about the components that define a loan agreement.*

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**Solution:** Terms of credit refer to the conditions under which credit is given, including the interest rate, collateral requirements, documentation, and repayment schedule. For example, a house loan might have an interest rate of 12%, require property documents as collateral, and need to be repaid in monthly installments over 10 years.

#### 6. Discuss the importance of Self Help Groups (SHGs) for the rural poor.

*Hint: Consider financial inclusion and social empowerment.*

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**Solution:** SHGs organize rural poor, especially women, into groups to pool their savings and provide loans at reasonable interest rates. They help overcome the problem of lack of collateral, provide a platform for discussing social issues, and enable access to formal banking services, thus empowering the poor financially and socially.

#### 7. How does credit play a vital and positive role in Salim's situation but lead to a debt trap in Swapna's case?

*Hint: Compare the outcomes of credit in both scenarios.*

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**Solution:** In Salim's situation, credit helps him meet working capital needs, complete production on time, and increase earnings, showing a positive role. In Swapna's case, crop failure leads to inability to repay the loan, forcing her to sell part of her land, illustrating a debt trap where credit worsens the borrower's situation.

## 8. What are the challenges faced by small farmers in accessing formal credit?

*Hint: Think about the requirements for formal loans and the profile of small farmers.*

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**Solution:** Small farmers face challenges like lack of collateral, inadequate documentation, and the perception of high risk by banks, making it difficult to access formal credit. They often rely on informal sources with higher interest rates, exacerbating their financial vulnerability.

## 9. Evaluate the role of cooperatives in providing cheap credit in rural areas.

*Hint: Consider the benefits over informal sources and the focus on member welfare.*

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**Solution:** Cooperatives pool resources of members to provide loans at lower interest rates than informal sources, are regulated, and focus on the welfare of their members. They play a crucial role in rural credit by making cheap credit accessible, thus reducing dependence on moneylenders and promoting financial inclusion.

## 10. Why is it necessary to increase the share of formal sector credit in India?

*Hint: Think about the benefits of formal credit for economic development and financial inclusion.*

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**Solution:** Increasing the share of formal sector credit is necessary to reduce dependence on expensive informal credit, ensure cheaper and regulated credit for all, especially the poor, and promote economic development by enabling investments in agriculture, small businesses, and other priority sectors.

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