

Chapter 3

Money and Credit

❖ Double Coincidence of Wants

It refers to a situation wherein what a person wishes to sell is exactly the same as that the other person wishes to buy. This is a concept in the barter system in which goods are exchanged directly without the use of money.

❖ Money

It is a medium of exchange.

- It eliminates the double coincidence of wants.
- **Forms of Money**
 - Ancient period: Grain and cattle were used as money.
 - Medieval period: Metallic coins of gold, silver, copper and lead were used as money.
 - Modern period: Paper currency and coins are used as money.

❖ Money in India

- Rupee is the Indian currency.
- Money has value because it has got the sanction of the government.
- Reserve Bank of India (RBI) is authorized to issue currency notes on behalf of the Government of India.

❖ Bank Deposits

- People deposit their money in banks by opening a bank account.
- Banks keep the money safe and also provide interest on the deposited amount of money to the depositors.
- The deposited money can be withdrawn from banks as and when required on demand. Hence, bank deposits are also called demand deposits.
- Bank deposits also facilitate easy transfers of money through cheques, demand drafts or internet banking.
- **Cheque:** A cheque is a document issued by an account holder to the bank, instructing the bank to pay a specific amount from the issuer's account to the person in whose name the cheque has been issued.

❖ Loans

Banks provide loans to people at some interest rate.

- Banks keep only 15% of their total deposits as cash to meet the day-to-day withdrawal demands.
- Rest of the cash is extended as loans to those who need it (borrowers) at a specific rate of interest.
- The interest provided by banks to depositors is less than the interest charged by banks from borrowers on loans.

This difference is the main source of income of banks.

- Banks provide housing loans, vehicle loans, farm loans, education loans, personal loans etc. to meet the specific requirements of borrowers.

❖ **Debt Trap**

It is a situation in which a person is caught in the vicious cycle of debts. He/she takes loans for meeting his/her requirements and on being unable to pay back the loan, takes a fresh loan to repay the old loan. This leaves him/her indebted all through his/her life.

❖ **Collateral**

It is an asset owned by the borrower such as land, building, vehicle, livestock etc., which is kept with the bank as a guarantee against a loan until the loan is repaid. In case of failure in repaying the loan, the bank would have the right to sell the collateral to recover the loan amount.

❖ **Terms of Credit**

- Interest rate
- Collateral security
- Mode of payment

❖ **Loans from Cooperatives**

- Cooperative societies are small scale organizations formed by people themselves.
- The members of cooperatives pool their resources in the account of the cooperative and then extend loans to those in need.
- Cooperatives also take loan from banks.
- There are several types of cooperatives such as *krishak* cooperatives, weaver's cooperatives, industrial workers' cooperatives etc.

❖ **Formal Sector Loans**

- These consist of loans from banks and cooperatives
- These loans are supervised by the RBI
- The terms of credit are fixed
- Rate of interest is not very high
- It comprises 52% of the total loans given in the country

❖ **Informal Sector Loans**

- These consist of loans from moneylenders, landlords, traders, relatives and friends etc.
- They are not under the control of the RBI
- The rates of interests are exorbitant
- It comprises 48% of the credit in the country
- It is mostly taken by poor rural households

❖ **Self-Help Groups**

SHGs are small groups of people who pool their savings and lend money to those members who are in urgent need of money. It usually consists of 15–20 members. The rate of

interest charged on the loan is very low. A regular group with some savings is also eligible for availing bank credit. These groups are created with the purpose of creating self-employment opportunities for the members.

SHGs of women have been a great success in India in making women self-reliant.

❖ **Grameen Bank**

- Started in 1970s as a small bank in Bangladesh
- Formed by Professor Mohammad Yunus who was awarded the Nobel Peace Prize in 2006.
- Most borrowers are women

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