

UNIQUE STUDY POINT

By Sumeet Sahu

www.uniquestudyonline.com

Unique Study Point, Amitesh Nagar, Indore, MP | Contact: 8103405051

Class: X	Subject: Social Science (Economics)	Session: 2025-26
Chapter: 03 - Money and Credit	Time: 1½ Hours	Max. Marks: 40

General Instructions:

1. All questions are compulsory.
2. This question paper contains 20 questions divided into five sections A, B, C, D and E.
3. Section A contains 10 MCQs of 1 mark each.
4. Section B contains 4 questions of 2 marks each.
5. Section C contains 3 questions of 3 marks each.
6. Section D contains 1 question of 5 marks.
7. Section E contains 2 Case Study Based questions of 4 marks each.

SECTION A - Multiple Choice Questions (1 mark each)

- Q1.** What is the main problem with barter system?
- (a) Heavy goods are difficult to carry
 - (b) Requires double coincidence of wants
 - (c) Goods can be damaged during exchange
 - (d) Goods have different values
- Q2.** Which organization issues currency notes on behalf of the Central Government in India?
- (a) State Bank of India
 - (b) Ministry of Finance
 - (c) Reserve Bank of India
 - (d) Indian Bank Association
- Q3.** What percentage of deposits do banks in India typically hold as cash?
- (a) About 5 per cent
 - (b) About 15 per cent
 - (c) About 25 per cent
 - (d) About 50 per cent
- Q4.** Demand deposits are called so because:
- (a) They are very popular
 - (b) They can be withdrawn on demand
 - (c) People demand them from banks
 - (d) Banks demand collateral for them
- Q5.** Which of the following is NOT an example of collateral?
- (a) Land titles

- (b) Deposits with banks
- (c) Livestock
- (d) Monthly salary

Q6. According to the 2019 survey, what percentage of rural household credit came from commercial banks?

- (a) 23%
- (b) 51%
- (c) 10%
- (d) 7%

Q7. Self-Help Groups typically have how many members?

- (a) 5-10 members
- (b) 15-20 members
- (c) 25-30 members
- (d) 30-40 members

Q8. The term 'debt-trap' refers to:

- (a) Banks charging high interest rates
- (b) A situation where borrower cannot repay and debt keeps increasing
- (c) Government regulations on lending
- (d) Cooperative societies lending policies

Q9. Grameen Bank is located in which country?

- (a) India
- (b) Pakistan
- (c) Bangladesh
- (d) Sri Lanka

Q10. Modern currency is authorized by:

- (a) People who use it
- (b) Banks
- (c) Government of the country
- (d) International Monetary Fund

SECTION B - Short Answer Questions (2 marks each)

Q11. Explain how money acts as a medium of exchange.

Q12. What is a cheque? How does it facilitate payment?

Q13. Why do banks charge a higher interest rate on loans than what they offer on deposits?

Q14. What are the two different credit situations? Give one example of each.

SECTION C - Short Answer Questions (3 marks each)

Q15. Explain the role of the Reserve Bank of India in supervising the functioning of banks. Why is this necessary?

Q16. What is collateral? Why do lenders ask for collateral while lending?

Q17. Describe the loan activities of banks. How do banks mediate between depositors and borrowers?

SECTION D - Long Answer Question (5 marks)

Q18. Discuss the importance of Self-Help Groups for the poor. How do SHGs help borrowers overcome the problem of lack of collateral?

SECTION E - Case Study Based Questions (4 marks each)

Q19. Read the following case and answer the questions:

Rajesh is a small farmer who grows wheat on his 2 acres of land. He takes a loan from a moneylender at an interest rate of 4% per month to meet cultivation expenses. Unfortunately, his crop fails due to unexpected rainfall. He is unable to repay the moneylender and the debt grows into a large amount. Next year, he takes a fresh loan for cultivation. Though he gets a normal crop, the earnings are not enough to cover the old loan. He has to sell part of his land to pay off the debt.

- (a) What was the main reason Rajesh fell into a debt-trap? (1 mark)
- (b) What is the annual interest rate charged by the moneylender? (1 mark)
- (c) How could formal sources of credit have helped Rajesh? (2 marks)

Q20. Read the following case and answer the questions:

Meena has joined a Self-Help Group in her village along with 18 other women. Each member saves Rs 50 per month. After one year of regular savings, the group has Rs 11,400 in their fund. The group decides to lend Rs 5,000 to one member for purchasing a sewing machine at 10% annual interest. After two years of regular savings, they approach a bank for a loan. The bank sanctions a loan of Rs 50,000 in the name of the group.

- (a) How much interest will the member pay in one year for the Rs 5,000 loan? (1 mark)
- (b) Why did the bank agree to give a loan to the SHG? (1 mark)
- (c) What are two benefits of SHGs apart from financial support? (2 marks)

Made with ♥ by Sumeet Sahu

Unique Study Point, Amitesh Nagar, Indore, MP

Website: uniquestudyonline.com

SECTION A - Answers to MCQs

Ans 1.

(b) Requires double coincidence of wants

Explanation: In barter system, both parties must agree to sell and buy each other's commodities, which makes exchange difficult.

Ans 2.

(c) Reserve Bank of India

Explanation: The RBI issues currency notes on behalf of the central government as per Indian law.

Ans 3.

(a) About 5 per cent

Explanation: Banks in India hold about 5% of deposits as cash to meet withdrawal needs of depositors.

Ans 4.

(b) They can be withdrawn on demand

Explanation: Bank deposits can be withdrawn whenever required, hence called demand deposits.

Ans 5.

(d) Monthly salary

Explanation: Collateral is an asset the borrower owns. Salary is income, not an asset.

Ans 6.

(b) 51%

Explanation: According to 2019 survey data, 51% of rural credit came from commercial banks.

Ans 7.

(b) 15-20 members

Explanation: A typical SHG has 15-20 members, usually from one neighborhood.

Ans 8.

(b) A situation where borrower cannot repay and debt keeps increasing

Explanation: Debt-trap occurs when credit pushes borrower into a situation from which recovery is very painful.

Ans 9.

(c) Bangladesh

Explanation: Grameen Bank was founded by Professor Muhammad Yunus in Bangladesh.

Ans 10.

(c) Government of the country

Explanation: Currency is accepted as medium of exchange because it is authorized by the government.

SECTION B - Answers to Short Answer Questions

Ans 11.

Money acts as a medium of exchange by providing a crucial intermediate step in transactions. A person holding money can easily exchange it for any commodity or service. For example, a shoe manufacturer can sell shoes for money and then use that money to buy wheat or any other item needed. This eliminates the need for double coincidence of wants that exists in barter system. Everyone accepts money in exchange because it is authorized by the government and can be further exchanged for desired goods and services.

Ans 12.

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 issued. It facilitates payment without using cash. When a cheque is deposited in the bank, money is transferred from one bank account to another within a couple of days. This makes it convenient for large transactions and provides safety as it avoids the need to carry cash.

Ans 13.

Banks charge higher interest rates on loans than what they offer on deposits because the difference between these two rates is their main source of income. Banks use deposits to extend loans and need to cover their operational costs and make profit. They also need to pay interest to depositors. Therefore, the interest charged from borrowers must be higher than the interest paid to depositors to sustain their operations.

Ans 14.

The two different credit situations are:

(i) Positive credit situation: Credit helps increase earnings. Example: Salim, the shoe manufacturer, takes loan for production during festival season. He completes orders, makes profit, and repays the loan successfully.

(ii) Negative credit situation (debt-trap): Credit pushes borrower into worse condition. Example: Swapna takes loan for crop cultivation but crop fails. Unable to repay, she takes fresh loans and eventually has to sell her land.

SECTION C - Answers to Short Answer Questions

Ans 15.

The Reserve Bank of India supervises banks in several ways:

- It monitors that banks maintain minimum cash balance out of deposits
- It ensures banks give loans not just to profit-making businesses but also to small cultivators, small scale industries, and small borrowers

- Banks must periodically submit information to RBI about their lending practices, interest rates, and loan recipients

This supervision is necessary because:

- It ensures banks operate responsibly and maintain public trust
- It protects depositors' money
- It ensures credit reaches all sections of society including the poor
- It promotes equitable economic development

Ans 16.

Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, or deposits with banks) and uses as a guarantee to the lender until the loan is repaid.

Lenders ask for collateral for the following reasons:

- It provides security against the loan - if the borrower fails to repay, the lender has the right to sell the collateral to obtain payment
- It reduces the risk for the lender
- It ensures that the borrower is serious about repaying the loan

However, absence of collateral is a major reason which prevents poor people from getting bank loans, forcing them to depend on expensive informal sources of credit.

Ans 17.

Banks keep only a small proportion (about 5%) of deposits as cash with themselves to pay depositors who might come to withdraw on any day. The major portion of deposits is used to extend loans to borrowers who need funds for various economic activities.

Banks mediate between depositors and borrowers in the following ways:

- They accept deposits from those who have surplus funds and pay them interest
- They lend these pooled deposits to those who need funds for productive purposes
- They charge higher interest from borrowers than what they pay to depositors
- The difference in interest rates is their source of income

Thus banks serve as important financial intermediaries connecting savers and borrowers, facilitating economic activities.

SECTION D - Answer to Long Answer Question

Ans 18.

Self-Help Groups are very important for the poor for the following reasons:

Overcoming collateral problem:

- SHGs help borrowers overcome the problem of lack of collateral by organizing rural poor, especially women, into small groups of 15-20 members
- Members pool their savings regularly (Rs 25 to Rs 100 or more per member)
- After a year or two of regular savings, the group becomes eligible for bank loans
- Loan is sanctioned in the name of the group, not individuals, so no individual collateral is needed
- The group is collectively responsible for repayment
- Any case of non-repayment by one member is followed up by other members
- Because of this collective responsibility, banks are willing to lend to poor women organized in SHGs

Other benefits of SHGs:

- Members can take small loans from the group itself at reasonable interest rates
- They get timely loans for various purposes - releasing mortgaged land, buying seeds, fertilizers, raw materials, housing materials, acquiring assets like sewing machines, livestock, etc.
- Important decisions regarding savings and loans are taken by group members democratically
- SHGs help women become financially self-reliant
- Regular meetings provide platform to discuss social issues like health, nutrition, domestic violence
- They are building blocks of organization of rural poor

Thus, SHGs provide not just financial support but also social empowerment to poor women.

SECTION E - Answers to Case Study Based Questions**Ans 19.**

(a) The main reason Rajesh fell into a debt-trap was the crop failure due to unexpected rainfall, combined with the very high interest rate (4% per month) charged by the moneylender. This made it impossible for him to repay even when he got a normal crop the next year.

(b) Annual interest rate = $4\% \times 12 \text{ months} = 48\%$ per annum

(c) Formal sources of credit like banks could have helped Rajesh in the following ways:

- Banks charge much lower interest rates (typically 8-12% per annum) compared to moneylenders
- With lower interest burden, Rajesh could have managed to repay even after crop failure
- Banks provide flexible repayment terms, allowing farmers to repay after harvest
- He wouldn't have fallen into debt-trap and wouldn't have lost his land
- Banks also provide crop insurance options which could have protected him from crop failure losses

Ans 20.

(a) Interest for one year = $\text{Rs } 5,000 \times 10/100 = \text{Rs } 500$

(b) The bank agreed to give loan to the SHG because:

- The group had a record of regular savings for two years, showing financial discipline
- The group takes collective responsibility for loan repayment
- Members follow up on any non-repayment by individual members
- This makes SHGs reliable borrowers despite not having individual collateral

(c) Two benefits of SHGs apart from financial support:

(i) Social empowerment: Regular meetings of the group provide a platform to discuss and act on various social issues such as health, nutrition, and domestic violence.

(ii) Women's empowerment: SHGs help women become financially self-reliant and give them decision-making power in their families and communities. Women gain confidence and leadership skills through participation in group activities.