

# UNIQUE STUDY POINT

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<b>Class:</b> X	<b>Subject:</b> Social Science (Economics)	<b>Session:</b> 2025-26
<b>Chapter:</b> 03 - Money and Credit	<b>Time:</b> 1½ Hours	<b>Max. Marks:</b> 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.** Modern currency is made of:
- (a) Gold and silver
  - (b) Paper and base metals
  - (c) Precious metals only
  - (d) Copper coins only
- Q2.** Which of the following is included in formal sector loans?
- (a) Moneylenders
  - (b) Traders
  - (c) Cooperative societies
  - (d) Relatives
- Q3.** According to 2019 data, what percentage of rural credit came from moneylenders?
- (a) 10%
  - (b) 23%
  - (c) 51%
  - (d) 7%
- Q4.** Terms of credit include all EXCEPT:
- (a) Interest rate
  - (b) Collateral
  - (c) Borrower's education
  - (d) Mode of repayment
- Q5.** In India, no individual can legally refuse payment made in:
- (a) Dollars

- (b) Gold
- (c) Rupees
- (d) Cheques

**Q6.** Krishak Cooperative mentioned in the chapter has how many farmers as members?

- (a) 1000
- (b) 2300
- (c) 5000
- (d) 10000

**Q7.** Which of the following was NOT used as money in early India?

- (a) Grains
- (b) Cattle
- (c) Plastic cards
- (d) Metallic coins

**Q8.** Professor Muhammad Yunus, founder of Grameen Bank, received which prize in 2006?

- (a) Bharat Ratna
- (b) Nobel Prize for Peace
- (c) Nobel Prize for Economics
- (d) Padma Vibhushan

**Q9.** The main source of income for banks is:

- (a) Deposits from customers
- (b) Government grants
- (c) Difference between interest charged and paid
- (d) Service charges

**Q10.** Demonetisation in India occurred in which year?

- (a) 2014
- (b) 2015
- (c) 2016
- (d) 2017

### SECTION B - Short Answer Questions (2 marks each)

**Q11.** Why is modern currency accepted as a medium of exchange even though it has no use of its own?

**Q12.** Distinguish between formal and informal sources of credit.

**Q13.** What do banks do with the deposits they accept from the public?

**Q14.** Why is cheap and affordable credit crucial for the country's development?

### SECTION C - Short Answer Questions (3 marks each)

**Q15.** Explain how demand deposits share the essential features of money. Give an example.

**Q16.** Compare the credit situations of Salim and Swapna as discussed in the chapter. What made their outcomes different?

**Q17.** Why are poor households still dependent on informal sources of credit? Explain any three reasons.

## SECTION D - Long Answer Question (5 marks)

**Q18.** Analyze the distribution of formal and informal credit between rich and poor households. What steps should be taken to increase formal sector lending to the poor?

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

**Q19. Read the following case and answer the questions:**

Arun is a medium farmer with seven acres of land in Sonpur. He received a bank loan for cultivation at 8.5% per annum interest rate, repayable in three years. He plans to repay the loan after harvest by selling part of the crop and storing the rest in cold storage. He will then apply for a fresh loan from the bank against the cold storage receipt. The bank offers this facility to farmers who have taken crop loan from them.

- (a) What is the main advantage Arun has over small farmers like Shyamal? (1 mark)
- (b) If Arun takes a loan of Rs 1,00,000, how much interest will he pay in one year? (1 mark)
- (c) Why are banks willing to give loans to farmers like Arun but not to landless laborers? (2 marks)

**Q20. Read the following case and answer the questions:**

Rama works as an agricultural laborer in Sonpur. She needs credit to meet daily expenses during months when she has no work. She also needs loans for sudden illnesses or family functions. Rama depends on her employer, a medium landowner, for credit. The landowner charges 5% per month interest. Rama repays by working for the landowner. Most times, she takes a fresh loan before repaying the previous one. Currently, she owes Rs 5,000 to the landowner. Though he doesn't treat her well, she continues working for him as he is her only source of credit.

- (a) What is the annual interest rate charged by the landowner? (1 mark)
- (b) Why is Rama unable to get a bank loan? (1 mark)
- (c) How is Rama's situation an example of exploitation through credit? Explain. (2 marks)

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SECTION A - Answers to MCQs

**Ans 1.**

(b) Paper and base metals

**Explanation:** Unlike earlier times, modern currency is not made of precious metals like gold or silver, but of paper notes and coins of base metals.

**Ans 2.**

(c) Cooperative societies

**Explanation:** Formal sector includes banks and cooperatives. Moneylenders, traders, and relatives are informal sources.

**Ans 3.**

(b) 23%

**Explanation:** According to 2019 survey data, moneylenders provided 23% of rural credit.

**Ans 4.**

(c) Borrower's education

**Explanation:** Terms of credit include interest rate, collateral, documentation, and mode of repayment, not education level.

**Ans 5.**

(c) Rupees

**Explanation:** Indian law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions.

**Ans 6.**

(b) 2300

**Explanation:** Krishak Cooperative has 2300 farmers as members.

**Ans 7.**

(c) Plastic cards

**Explanation:** Plastic cards are modern payment methods. Early Indians used grains, cattle, and metallic coins.

**Ans 8.**

(b) Nobel Prize for Peace

**Explanation:** Professor Muhammad Yunus received the 2006 Nobel Prize for Peace for his work with Grameen Bank.

### Ans 9.

(c) Difference between interest charged and paid

**Explanation:** Banks' main income is the difference between interest charged from borrowers and interest paid to depositors.

### Ans 10.

(c) 2016

**Explanation:** Demonetisation occurred in November 2016 when Rs 500 and Rs 1000 notes were declared invalid.

## SECTION B - Answers to Short Answer Questions

### Ans 11.

Modern currency is accepted as a medium of exchange even though it has no use of its own for the following reasons:

- It is authorized by the government of the country
- In India, the Reserve Bank of India issues currency notes on behalf of the central government
- The law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India
- No individual or organization except RBI is allowed to issue currency
- People accept it because they know they can further exchange it for any goods or services they need

Thus, government authorization and legal acceptance make modern currency valuable despite having no intrinsic use.

### Ans 12.

#### **Formal Sources of Credit:**

- Include banks and cooperative societies
- Supervised by Reserve Bank of India
- Charge lower interest rates (typically 8-15% per annum)
- Have fixed terms and regulations

#### **Informal Sources of Credit:**

- Include moneylenders, traders, employers, relatives and friends
- No supervision by any organization
- Charge very high interest rates (can be 3-5% per month or 36-60% per annum)
- Can use unfair means to recover money

### Ans 13.

Banks keep only a small proportion (about 5%) of their deposits as cash with themselves to meet withdrawal needs of depositors on any given day. They use the major portion of deposits to extend loans to borrowers. There is huge demand for loans for various economic activities like crop production, small businesses, housing, education, etc. Banks charge higher interest from borrowers than what they pay to depositors, and this difference is their main source of income.

### Ans 14.

Cheap and affordable credit is crucial for development because:

- It enables people to grow crops, do business, and set up small-scale industries

- It allows entrepreneurs to start new industries or trade in goods
- Lower interest rates mean borrowers have more income left for themselves after repaying loans
- It prevents people from falling into debt traps
- It helps in income generation and poverty reduction
- Expensive credit can discourage people from starting enterprises

Therefore, access to cheap credit from formal sources is essential for economic development.

## SECTION C - Answers to Short Answer Questions

### Ans 15.

Demand deposits share the essential features of money in the following ways:

**1. Medium of Exchange:** People can make payments through cheques drawn against demand deposits, eliminating the need for cash. The facility of cheques makes it possible to directly settle payments.

**2. Widely Accepted:** Demand deposits are accepted as a means of payment by traders, businesses, and individuals.

**3. Can be withdrawn on demand:** Since deposits can be withdrawn whenever required, they are as good as currency.

**Example:** When shoe manufacturer M. Salim has to pay the leather supplier, he writes a cheque for the amount. The leather supplier deposits this cheque in his bank account. Money is transferred from Salim's account to supplier's account without any cash transaction. This shows how demand deposits function as money.

Thus, demand deposits constitute money in modern economy along with currency.

### Ans 16.

#### Salim's Situation (Positive Credit):

- Salim, a shoe manufacturer, received an order for 3000 pairs of shoes
- He took loans from leather supplier and trader to meet production expenses
- He completed production on time, delivered the order, made good profit
- He successfully repaid the loans
- Credit helped him increase his earnings

#### Swapna's Situation (Debt-trap):

- Swapna, a small farmer, took loan from moneylender for cultivation
- Her crop failed due to pests
- She couldn't repay and debt grew into large amount
- Next year's normal crop earnings weren't enough to cover old debt
- She had to sell part of her land
- Credit pushed her into worse condition

#### Key Differences:

- Salim's business had no major risks while Swapna faced crop failure
- Salim got timely credit while Swapna borrowed at high interest
- Salim had orders confirmed before taking loan
- Whether credit is useful depends on risks involved and whether there is support in case of loss

### Ans 17.

Poor households are still dependent on informal sources of credit for the following reasons:

- 1. Lack of Collateral:** Banks require collateral for loans. Poor people don't own assets like land, buildings, or vehicles that can be used as collateral. This is the major reason preventing them from getting bank loans.
- 2. Lack of Bank Presence:** Banks are not present everywhere in rural India. Even when present, poor people may have to travel long distances, making it difficult to access formal credit.
- 3. Documentation Requirements:** Banks require proper documents for loans. Poor people often lack necessary documents like land records, proof of income, etc., making it difficult for them to fulfill bank requirements.
- 4. Personal Relationships:** Informal lenders like moneylenders know borrowers personally and are willing to give loans without collateral. They are also more flexible about repayment terms.
- 5. Quick Access:** Informal sources provide quick loans without lengthy procedures, which is important during emergencies.

However, informal sources charge very high interest rates, leading to debt traps.

## SECTION D - Answer to Long Answer Question

### Ans 18.

#### **Analysis of Credit Distribution:**

According to data on urban households, there is significant disparity in access to formal and informal credit between rich and poor:

#### **Poor Households:**

- 54% of loans come from informal sources
- Only 46% from formal sources
- Have to pay high interest rates
- Vulnerable to debt traps

#### **Rich Households:**

- Only 17% from informal sources
- 83% from formal sources
- Benefit from cheaper credit
- Can invest in income-generating activities

**Similar pattern exists in rural areas as well.**

#### **Implications:**

- Rich households avail cheap credit while poor pay heavily for borrowing
- This increases inequality
- Formal sector meets only half of total rural credit needs
- Poor remain trapped in cycle of poverty

#### **Steps to Increase Formal Sector Lending to Poor:**

- 1. Expand Bank Network:** Establish more bank branches in rural and poor urban areas to improve access.

**2. Simplify Procedures:** Make loan application procedures simpler and reduce documentation requirements for small loans.

**3. Alternative Collateral:** Accept alternative forms of security instead of traditional collateral like land.

**4. Promote SHGs:** Encourage formation of more Self-Help Groups and link them with banks for collective lending.

**5. Cooperative Credit:** Strengthen cooperative societies to provide credit to members.

**6. Government Schemes:** Implement special credit schemes for poor with subsidized interest rates.

**7. Financial Literacy:** Educate poor people about formal credit sources and their rights.

**8. Monitoring:** RBI should strictly monitor that banks lend to all sections including the poor.

Only when formal credit reaches the poor equally, can we achieve inclusive development.

## SECTION E - Answers to Case Study Based Questions

### Ans 19.

**(a)** The main advantage Arun has over small farmers like Shyamal is:

- He owns more land (7 acres) which serves as collateral
- He can get bank loans at much lower interest rate (8.5% per annum)
- Small farmers without collateral have to borrow from moneylenders at very high rates (60% or more per annum)

**(b)** Interest for one year = Rs 1,00,000 × 8.5/100 = Rs 8,500

**(c)** Banks are willing to give loans to farmers like Arun but not to landless laborers because:

- Arun owns 7 acres of land which can be used as collateral for the loan
- If Arun fails to repay, the bank can sell his land to recover the money
- Landless laborers have no assets to offer as collateral
- Banks consider them high-risk borrowers
- Without collateral, banks cannot recover their money if the loan is not repaid
- This is why banks prefer lending to those who have property, even though landless laborers also need credit

### Ans 20.

**(a)** Annual interest rate = 5% per month × 12 months = 60% per annum

**(b)** Rama is unable to get a bank loan because:

- She is a landless agricultural laborer with no assets
- She has no collateral (land, building, deposits) to offer to the bank
- She has irregular income with no guarantee of employment
- Banks consider her a high-risk borrower

**(c)** Rama's situation is an example of exploitation through credit in the following ways:

**Exploitation through high interest:** The landowner charges 60% annual interest, which is

extremely high compared to 8-15% charged by banks. This means a large part of Rama's earnings goes to repay interest, keeping her in poverty.

**Creating dependency:** The landowner is her only source of credit, so Rama must continue working for him even though he doesn't treat her well. She cannot leave or negotiate better wages because she needs access to credit.

**Perpetual debt cycle:** Rama has to take fresh loans before repaying previous ones. Currently owing Rs 5,000, she's trapped in continuous debt. She repays by working, but her labor doesn't earn enough to clear the debt, so she borrows again. This creates a cycle of debt bondage.

**Loss of dignity:** Despite poor treatment, she must continue because she has no alternative, showing how credit can be used as a tool of exploitation when formal sources are not accessible to the poor.

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