

# 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.** In rural areas, the main demand for credit is for:
- (a) Purchase of vehicles
  - (b) Crop production
  - (c) House construction
  - (d) Education
- Q2.** Which currency notes were declared invalid during demonetisation in November 2016?
- (a) Rs 100 and Rs 500
  - (b) Rs 500 and Rs 1000
  - (c) Rs 1000 and Rs 2000
  - (d) Rs 100 and Rs 1000
- Q3.** According to 2019 data, what percentage of rural credit came from cooperative banks and societies?
- (a) 5%
  - (b) 7%
  - (c) 10%
  - (d) 23%
- Q4.** The period between buying inputs and selling crop is typically:
- (a) One to two months
  - (b) Three to four months
  - (c) Six to seven months
  - (d) One year
- Q5.** Members of an SHG can save per month:

- (a) Rs 10 to Rs 20
- (b) Rs 25 to Rs 100 or more
- (c) Rs 200 to Rs 300
- (d) Rs 500 to Rs 1000

**Q6.** Which organization supervises the functioning of formal sources of loans?

- (a) Finance Ministry
- (b) NITI Aayog
- (c) Reserve Bank of India
- (d) Supreme Court

**Q7.** The survey data on rural debt used in the chapter is from which round of NSSO?

- (a) 70th Round
- (b) 73rd Round
- (c) 77th Round
- (d) 80th Round

**Q8.** Digital transactions include all EXCEPT:

- (a) Bank-to-bank transfer through internet
- (b) ATM cards
- (c) Credit cards
- (d) Barter exchange

**Q9.** Grameen Bank in 2018 had how many members?

- (a) Over 5 million
- (b) Over 7 million
- (c) Over 9 million
- (d) Over 11 million

**Q10.** Who issues currency notes in India?

- (a) Government Printing Press
- (b) Reserve Bank of India
- (c) State Bank of India
- (d) Ministry of Finance

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

**Q11.** What would happen if all depositors went to ask for their money at the same time from a bank? Explain.

**Q12.** Why do farmers usually repay crop loans only after harvest?

**Q13.** What are the advantages of digital transactions over cash transactions?

**Q14.** How does credit play a vital and positive role? Give an example from the chapter.

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

**Q15.** Explain how cooperatives function as a source of credit. What types of loans do they provide?

**Q16.** Why is higher cost of borrowing harmful for the borrower? Explain with reference to the debt-trap situation.

**Q17.** Describe three main functions that modern forms of money perform. How are they linked to the banking system?

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

**Q18.** "Credit has both positive and negative roles to play in economic development." Analyze this statement with suitable examples. What factors determine whether credit will be useful or harmful?

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

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

Shyamal is a small farmer in Sonpur with 1.5 acres of land. Every season he needs loans for cultivation. For the last few years, he has been borrowing from an agricultural trader at 3% per month interest. At the beginning of the cropping season, the trader supplies farm inputs on credit, to be repaid when crops are ready for harvest. Besides interest, the trader also makes Shyamal promise to sell the crop to him. Since crop prices are low after harvest, the trader makes profit by buying crops at low prices and selling later when prices rise.

- (a) What is the annual interest rate charged by the trader? (1 mark)
- (b) How does the trader benefit doubly from this arrangement? (1 mark)
- (c) Why doesn't Shyamal borrow from banks instead? Explain two reasons. (2 marks)

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

A women's Self-Help Group in a village started with 18 members. Each member saves Rs 75 per month. After 18 months of regular savings, the group has accumulated Rs 24,300. The group gives a loan of Rs 8,000 to a member at 12% annual interest for purchasing a buffalo. The member plans to sell milk and repay the loan. After two years of regular savings and loan repayments, the SHG approaches a bank. The bank, impressed with their record, gives them a loan of Rs 80,000 for income-generating activities.

- (a) How much interest will the member pay in one year on the Rs 8,000 loan? (1 mark)
- (b) Why would banks prefer giving loans to SHGs rather than to individual poor women? (1 mark)
- (c) How do SHGs empower women beyond providing financial support? (2 marks)

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SECTION A - Answers to MCQs

**Ans 1.**

(b) Crop production

**Explanation:** In rural areas, the main demand for credit is for crop production to meet costs of seeds, fertilizers, pesticides, water, electricity, and equipment repair.

**Ans 2.**

(b) Rs 500 and Rs 1000

**Explanation:** In November 2016, currency notes of Rs 500 and Rs 1000 denominations were declared invalid during demonetisation.

**Ans 3.**

(c) 10%

**Explanation:** According to 2019 survey data, cooperative banks and societies provided 10% of rural credit.

**Ans 4.**

(b) Three to four months

**Explanation:** There is a minimum stretch of three to four months between when farmers buy inputs and when they sell crops.

**Ans 5.**

(b) Rs 25 to Rs 100 or more

**Explanation:** Saving per member in SHGs varies from Rs 25 to Rs 100 or more, depending on their ability to save.

**Ans 6.**

(c) Reserve Bank of India

**Explanation:** The RBI supervises the functioning of formal sources of loans including banks and cooperatives.

**Ans 7.**

(c) 77th Round

**Explanation:** Data is from All India Debt and Investment Survey, 77th Round 2019 conducted by NSSO.

**Ans 8.**

(d) Barter exchange

**Explanation:** Barter is direct exchange of goods without money. Digital transactions use electronic

methods for payment.

### Ans 9.

(c) Over 9 million

**Explanation:** Grameen Bank in 2018 had over 9 million members in about 81,600 villages across Bangladesh.

### Ans 10.

(b) Reserve Bank of India

**Explanation:** The Reserve Bank of India issues currency notes on behalf of the Central Government.

## SECTION B - Answers to Short Answer Questions

### Ans 11.

If all depositors went to ask for their money at the same time, the bank would face a serious crisis because:

- Banks keep only about 5% of deposits as cash with themselves
- The remaining 95% is given out as loans to borrowers
- Banks cannot instantly recall all the loans they have given
- Therefore, they would not have enough cash to pay all depositors simultaneously
- This situation would lead to a "bank run" and the bank would collapse

However, this doesn't normally happen because only some depositors come to withdraw on any given day, and banks manage with the small cash reserve they maintain.

### Ans 12.

Farmers usually repay crop loans only after harvest because:

- Crop production involves considerable costs on seeds, fertilizers, pesticides, water, electricity, and equipment
- There is a gap of three to four months between buying inputs and selling crops
- Farmers have no income during this cultivation period
- They get money only when they sell their harvest
- Repayment of loan is crucially dependent on income from farming

Therefore, farmers take crop loans at the beginning of season and repay after harvest when they have income from selling their crops.

### Ans 13.

Advantages of digital transactions over cash transactions:

- **Safety:** Reduces risk of theft, loss, or robbery of cash
- **Convenience:** No need to carry physical cash, payments can be made from anywhere
- **Record keeping:** Automatic records of all transactions for future reference
- **Transparency:** All transactions are traceable, helping reduce corruption
- **Speed:** Instant transfer of money through internet or mobile phones
- **Efficiency:** Reduces the requirement and cost of printing and handling cash

This is why digital transactions are being promoted in India.

### Ans 14.

Credit plays a vital and positive role by helping people increase their earnings and grow economically.

**Example from the chapter:**

Salim, a shoe manufacturer, received an order for 3,000 pairs of shoes during festival season. To complete production on time, he needed to hire more workers and purchase raw materials. He obtained credit from two sources - the leather supplier (who supplied leather on promise of later payment) and a large trader (who gave advance payment). With this credit, Salim was able to meet his working capital needs, complete production on time, deliver the order, make good profit, and successfully repay his borrowings.

Thus, credit helped Salim meet ongoing expenses of production, increase his earnings, and expand his business. This demonstrates the positive role of credit in economic activities.

## SECTION C - Answers to Short Answer Questions

### Ans 15.

**How cooperatives function:**

- Members of a cooperative pool their resources for cooperation in certain areas
- They accept deposits from their members
- With these deposits as collateral, cooperatives obtain large loans from banks
- These funds are used to provide loans to members
- Once loans are repaid, another round of lending can take place
- Most decisions are taken collectively by members

**Types of loans provided:**

- Loans for purchase of agricultural implements
- Loans for cultivation and agricultural trade
- Fishery loans
- Loans for construction of houses
- Loans for variety of other expenses

**Example:** Krishak Cooperative with 2,300 farmer members provides all these types of loans to its members.

Cooperatives serve as an important source of cheap credit in rural areas besides banks.

### Ans 16.

Higher cost of borrowing is harmful for the borrower because:

- 1. Reduces disposable income:** A larger part of the borrower's earnings is used to repay the loan and interest, leaving less income for the borrower's own needs and family welfare.
- 2. Can create debt-trap:** When interest rate is very high, the amount to be repaid can become greater than the borrower's income, making full repayment impossible.
- 3. Forced asset sale:** To repay high-interest loans, borrowers may have to sell their assets like land, livestock, or jewelry, making them poorer.

**Debt-trap situation (as seen with Swapna):**

- Swapna borrowed from moneylender at high interest for crop cultivation
- Her crop failed due to pests
- Unable to repay, the debt grew into a large amount

- Even next year's earnings from normal crop weren't enough to cover the accumulated debt
- She had to sell part of her land to pay off the debt
- Credit pushed her into worse condition instead of helping her

This shows how high cost of borrowing can trap people in a cycle of debt from which recovery is very painful.

### Ans 17.

#### **Three main functions of modern forms of money:**

##### **1. Medium of Exchange:**

- Money eliminates the need for double coincidence of wants
- Anyone holding money can exchange it for any commodity or service
- Money provides the crucial intermediate step in transactions

##### **2. Store of Value:**

- People can save money for future use
- Money retains its value over time
- Unlike perishable goods, money can be stored safely

##### **3. Unit of Account:**

- Money provides a common measure of value for all goods and services
- Prices of all items are expressed in monetary terms
- Makes comparison and calculation easy

#### **Link to banking system:**

Modern forms of money - currency and demand deposits - are closely linked to banking:

- Reserve Bank of India issues currency on behalf of government
- Banks accept deposits from public, which become demand deposits
- Demand deposits can be used for payments through cheques
- Banks use these deposits to extend loans
- Banks thus mediate between those with surplus funds and those needing funds
- Without the banking system, there would be no demand deposits and no cheque payments

Therefore, modern money cannot function without the modern banking system.

## SECTION D - Answer to Long Answer Question

### Ans 18.

Credit indeed has both positive and negative roles in economic development, depending on how it is used and the circumstances of the borrower.

#### **POSITIVE ROLE OF CREDIT:**

##### **Example 1 - Salim (Shoe Manufacturer):**

- Received order for 3,000 pairs of shoes during festival season
- Took credit from leather supplier and trader to meet working capital needs
- Completed production on time, delivered order, made good profit
- Successfully repaid all borrowings
- Credit helped increase his earnings and expand business

##### **Benefits of positive credit:**

- Helps meet working capital needs for production

- Enables people to start or expand businesses
- Farmers can buy seeds, fertilizers, and equipment
- Creates employment opportunities
- Increases income and improves living standards
- Drives economic growth and development

### **NEGATIVE ROLE OF CREDIT (Debt-trap):**

#### **Example 2 - Swapna (Small Farmer):**

- Borrowed from moneylender for crop cultivation
- Crop failed due to pest attack despite expensive pesticide use
- Unable to repay, debt accumulated over the year
- Next year's normal crop earnings insufficient to cover old debt
- Forced to sell part of her land to repay loan
- Credit pushed her into worse condition than before

#### **Harmful effects of negative credit:**

- High interest rates consume large part of earnings
- Borrowers fall into debt-trap - continuous cycle of borrowing
- May lose assets like land, livestock, jewelry
- Increases poverty instead of reducing it
- Can lead to exploitation and bonded labor
- Discourages entrepreneurship due to fear of debt

### **FACTORS DETERMINING WHETHER CREDIT WILL BE USEFUL OR HARMFUL:**

#### **1. Interest Rate:**

- Low interest (8-15% from banks) - helpful
- High interest (36-60% from moneylenders) - harmful

#### **2. Purpose of Loan:**

- Productive purposes (business, farming) - useful if successful
- Consumption needs without income generation - can lead to debt

#### **3. Risks Involved:**

- Established business with confirmed orders - low risk
- Agriculture dependent on weather - high risk

#### **4. Support System:**

- Crop insurance, backup plans - reduces harmful impact
- No support in case of failure - increases risk of debt-trap

#### **5. Repayment Capacity:**

- Adequate income to repay - credit helps
- Income less than debt obligation - leads to debt-trap

#### **6. Source of Credit:**

- Formal sources (banks, cooperatives) - reasonable terms
- Informal sources (moneylenders) - often exploitative

### **CONCLUSION:**

Credit is essential for economic development, but its impact depends on terms of credit, purpose, risks, and availability of support systems. To ensure credit plays a positive role:

- Banks must expand lending to all sections including the poor

- Interest rates should be reasonable
- Insurance and support systems should protect against risks
- Financial literacy should be promoted
- Informal sector exploitation must be reduced

Only then can credit truly contribute to inclusive economic development.

## SECTION E - Answers to Case Study Based Questions

### Ans 19.

(a) Annual interest rate = 3% per month  $\times$  12 months = 36% per annum

(b) The trader benefits doubly from this arrangement in the following ways:

**First benefit (Interest income):** He earns 36% annual interest on the credit he provides, which is much higher than bank interest rates.

**Second benefit (Trading profit):** He makes Shyamal promise to sell crops to him. Since crop prices are low immediately after harvest, he buys at low prices and sells later when prices rise, making trading profit.

(c) Shyamal doesn't borrow from banks for the following reasons:

**Reason 1 - Lack of collateral:** Shyamal has only 1.5 acres of land, which may not be sufficient collateral for banks, or he may not want to risk his small landholding. Banks require substantial collateral which small farmers often cannot provide.

**Reason 2 - Convenience and accessibility:** The trader provides credit directly in the form of farm inputs at the beginning of season without lengthy procedures. Banks require documentation, visits to branch, and have lengthy application processes. For a small farmer, dealing with the trader is more convenient despite higher cost.

Additionally, banks may not be easily accessible in his village, while the trader is locally available and knows him personally.

### Ans 20.

(a) Interest for one year = Rs 8,000  $\times$  12/100 = Rs 960

(b) Banks prefer giving loans to SHGs rather than to individual poor women because:

- SHGs have a record of regular savings showing financial discipline and reliability
- The loan is given to the group, not individuals, so collective responsibility ensures repayment
- Group members follow up on any non-repayment by individual members
- This peer pressure and collective accountability makes SHGs reliable borrowers
- Banks face less risk with SHGs compared to individual poor borrowers who have no collateral
- One application and one loan sanction covers multiple beneficiaries, reducing bank's administrative work

(c) SHGs empower women beyond financial support in the following ways:

(i) **Social empowerment:**

- Regular meetings of the group provide a platform to discuss and act on various social issues
- Women can raise concerns about health, nutrition, sanitation, and domestic violence
- Group provides support system and collective voice to address community problems
- Women learn to speak up and participate in community decision-making

**(ii) Personal and leadership development:**

- Women become financially self-reliant and gain confidence
- They learn financial management, savings discipline, and loan management
- Participation in group decisions develops leadership and organizational skills
- Enhanced status in family and society as earning members
- Breaking of isolation - women interact with others beyond family
- Awareness about rights, government schemes, and opportunities

Thus, SHGs are building blocks of organization of rural poor, especially women, providing not just financial but also social and personal empowerment.

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