

UNIQUE STUDY POINT

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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 double coincidence of wants?
- (a) When two people want the same thing
 - (b) When both parties agree to sell and buy each other's commodities
 - (c) When banks give two loans together
 - (d) When demand deposits are used twice
- Q2.** Which of the following is NOT a form of collateral?
- (a) Land titles
 - (b) Building
 - (c) Monthly income
 - (d) Livestock
- Q3.** According to 2019 data, what percentage of rural credit came from relatives and friends?
- (a) 3%
 - (b) 7%
 - (c) 10%
 - (d) 23%
- Q4.** In which villages did Grameen Bank operate in 2018?
- (a) About 50,000 villages
 - (b) About 65,000 villages
 - (c) About 81,600 villages
 - (d) About 90,000 villages
- Q5.** Almost all borrowers of Grameen Bank are:
- (a) Men from rich families

- (b) Women from poorest sections
- (c) Government employees
- (d) Large farmers

Q6. The main feature that allows demand deposits to function as money is:

- (a) High interest rate
- (b) Long-term savings
- (c) Facility of cheques
- (d) Government guarantee

Q7. Which organization provides data on self-help groups in India?

- (a) RBI
- (b) NITI Aayog
- (c) NABARD
- (d) Planning Commission

Q8. What happens when the government declares some currency notes invalid and replaces them with new ones?

- (a) Monetisation
- (b) Demonetisation
- (c) Digitalisation
- (d) Devaluation

Q9. Which of the following was used as money in early ages in India?

- (a) Paper notes
- (b) Cheques
- (c) Grains and cattle
- (d) Credit cards

Q10. In India, as per law, who can issue currency?

- (a) Any bank
- (b) Only Reserve Bank of India
- (c) State governments
- (d) Any financial institution

SECTION B - Short Answer Questions (2 marks each)

Q11. How do banks earn their income? Explain briefly.

Q12. Why is it difficult for poor people to get loans from banks? State two reasons.

Q13. What are the sources of information on rural debt mentioned in the chapter?

Q14. How does SHG help in creating self-employment opportunities for its members?

SECTION C - Short Answer Questions (3 marks each)

Q15. Explain the terms of credit with suitable examples from the chapter.

Q16. How do informal lenders differ from formal lenders in their lending practices? Explain any three differences.

Q17. Why is it necessary that banks and cooperatives increase their lending, particularly in rural

areas? Explain.

SECTION D - Long Answer Question (5 marks)

Q18. Describe the functioning and importance of Self-Help Groups in India. How do they overcome the barriers that prevent the poor from getting bank loans? What additional benefits do SHGs provide besides credit?

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

Q19. Read the following case and answer the questions:

Megha has taken a loan of Rs 5 lakhs from a bank to purchase a house. The annual interest rate is 12% and the loan is to be repaid in 10 years in monthly installments. Before sanctioning the loan, the bank asked Megha to submit documents showing her employment records and salary. The bank retained as collateral the papers of the new house, which will be returned only when she repays the entire loan with interest.

- (a) What is the total interest Megha will pay if she repays the loan in exactly 10 years? (1 mark)
- (b) Why did the bank ask for employment records and salary documents? (1 mark)
- (c) What will happen if Megha is unable to repay the loan? How does collateral protect the bank? (2 marks)

Q20. Read the following case and answer the questions:

In a village in Karnataka, a group of 20 women formed an SHG. They started saving Rs 50 per member per month. After 15 months of regular savings, they had Rs 15,000 in their fund. They decided to give a loan of Rs 6,000 to a member named Lakshmi to buy a sewing machine at 10% annual interest. Lakshmi started a tailoring business from home. After two years of successful operations and regular savings, the group approached a bank. The bank gave them a loan of Rs 1,00,000 at 11% annual interest, which they distributed among members for various income-generating activities.

- (a) How much total savings did the SHG accumulate in 15 months? (1 mark)
- (b) What was the difference in interest rate between SHG loan and bank loan to SHG? (1 mark)
- (c) How do SHGs help in women's empowerment? Explain with two points from the case. (2 marks)

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SECTION A - Answers to MCQs

Ans 1.

(b) When both parties agree to sell and buy each other's commodities

Explanation: Double coincidence of wants means what a person desires to sell is exactly what the other wishes to buy. This is essential in barter system.

Ans 2.

(c) Monthly income

Explanation: Collateral must be an asset that the borrower owns. Income is not an asset but a flow of money.

Ans 3.

(b) 7%

Explanation: According to 2019 survey data, relatives and friends provided 7% of rural credit.

Ans 4.

(c) About 81,600 villages

Explanation: Grameen Bank in 2018 operated in about 81,600 villages spread across Bangladesh.

Ans 5.

(b) Women from poorest sections

Explanation: Almost all borrowers of Grameen Bank are women and belong to the poorest sections of society.

Ans 6.

(c) Facility of cheques

Explanation: The facility of cheques against demand deposits makes it possible to directly settle payments, allowing demand deposits to function as money.

Ans 7.

(c) NABARD

Explanation: Data on self-help groups is provided on the website of National Bank for Agriculture and Rural Development (NABARD).

Ans 8.

(b) Demonetisation

Explanation: When government declares certain currency notes invalid and replaces them with new currency, it is called demonetisation.

Ans 9.

(c) Grains and cattle

Explanation: Since very early ages, Indians used grains and cattle as money before metallic coins were introduced.

Ans 10.

(b) Only Reserve Bank of India

Explanation: As per Indian law, no other individual or organization except RBI is allowed to issue currency.

SECTION B - Answers to Short Answer Questions

Ans 11.

Banks earn their income through the following process:

- Banks accept deposits from the public and pay interest on these deposits
- They use the major portion of deposits (about 95%) to extend loans to borrowers
- Banks charge a higher interest rate on loans than what they offer on deposits
- The difference between the interest charged from borrowers and the interest paid to depositors is the main source of income for banks

For example, if a bank pays 5% interest on deposits and charges 12% interest on loans, the difference of 7% is the bank's income, which covers operational costs and generates profit.

Ans 12.

It is difficult for poor people to get loans from banks for the following reasons:

- 1. Absence of collateral:** Banks require collateral (assets like land, building, vehicles, deposits) as security for loans. Poor people don't own such assets and therefore cannot provide the required collateral. This is the major reason preventing them from accessing bank loans.
- 2. Lack of proper documentation:** Banks require various documents such as proof of income, employment records, address proof, etc. Poor people, especially those in informal sector or without regular employment, often lack such documentation, making it difficult for them to fulfill bank requirements for loans.

Ans 13.

The sources of information on rural debt mentioned in the chapter are:

- **National Sample Survey Organisation (NSSO):** The data is drawn from the All India Debt and Investment Survey, 77th Round 2019, conducted by NSSO (now known as National Statistical Office - NSO)
- **Reserve Bank of India (RBI):** For bank-related statistics and details of specific banks, available on www.rbi.org
- **National Bank for Agriculture and Rural Development (NABARD):** Data on self-help groups is provided on www.nabard.org
- **Newspaper reports and websites:** Information on Grameen Bank is taken from these sources

Ans 14.

SHGs help in creating self-employment opportunities for members in the following ways:

- After a year or two of regular savings, the SHG becomes eligible for bank loans

- Loan is sanctioned in the name of the group for creating self-employment opportunities
- Small loans are provided to members for various purposes such as:
 - Releasing mortgaged land
 - Meeting working capital needs (buying seeds, fertilizers, raw materials like bamboo and cloth)
 - Acquiring assets like sewing machines, handlooms, cattle, etc.
- Members can use these loans to start small businesses like tailoring, weaving, dairy farming, handicrafts, etc.
- This helps them become self-employed and generate regular income
- They can repay loans from their earnings and take fresh loans for expanding activities

SECTION C - Answers to Short Answer Questions

Ans 15.

Terms of credit refer to the conditions and requirements specified in a loan agreement. They include:

1. Interest Rate: The rate at which the borrower must pay interest to the lender along with repayment of principal.

Example: Megha's housing loan has 12% annual interest rate, while Arun's crop loan has 8.5% annual interest.

2. Collateral: An asset that the borrower owns and uses as guarantee until the loan is repaid.

Example: Megha used her new house papers as collateral. Arun could use his 7 acres of land. Swapna had only 3 acres which may not be sufficient collateral.

3. Documentation Requirement: Papers and records needed to verify borrower's credentials.

Example: Megha had to submit employment records and salary documents to the bank.

4. Mode of Repayment: How and when the loan is to be repaid.

Example: Megha repays in monthly installments over 10 years. Arun can repay anytime within 3 years, planning to repay after harvest.

These terms vary substantially depending on the nature of lender and borrower. Formal sources like banks have regulated terms while informal lenders like moneylenders can set any terms they wish.

Ans 16.

Informal lenders differ from formal lenders in the following ways:

1. Supervision and Regulation:

- **Formal lenders:** Supervised by Reserve Bank of India. Must follow rules and submit periodic reports on lending activities.

- **Informal lenders:** No organization supervises their credit activities. They can lend at whatever interest rate they choose and use unfair means to recover money.

2. Interest Rates:

- **Formal lenders:** Charge relatively low interest rates (typically 8-15% per annum).

- **Informal lenders:** Charge very high interest rates (can be 3-5% per month or 36-60% per annum or even higher).

3. Collateral and Documentation:

- **Formal lenders:** Require proper collateral and extensive documentation. Maintain detailed records of transactions.

- **Informal lenders:** Know borrowers personally, often willing to lend without collateral. Keep no or

minimal records of transactions. More flexible but can exploit this personal relationship.

4. Transparency:

- **Formal lenders:** Terms of credit are clearly specified in writing. Regulated procedures.
- **Informal lenders:** May not have written agreements. Terms can be unclear or changed arbitrarily.

Because of these differences, informal lenders are more accessible to poor but charge much higher costs, often leading to debt traps.

Ans 17.

It is necessary that banks and cooperatives increase their lending, particularly in rural areas, for the following reasons:

1. Reduce dependence on expensive informal credit:

- Currently, formal sector meets only about half of rural credit needs
- The remaining is met from informal sources charging very high interest rates
- This keeps poor people in debt traps
- More formal credit would reduce this expensive borrowing

2. Enable inclusive development:

- Cheap and affordable credit is crucial for country's development
- It would enable more people to borrow for growing crops, doing business, setting up industries
- This would lead to higher incomes and better living standards
- Development would reach all sections of society

3. Support productive activities:

- Lower interest rates mean borrowers have more income left for themselves
- People can invest in productive activities without fear of debt
- Entrepreneurs can start new businesses or expand existing ones
- This creates employment and drives economic growth

4. Ensure equitable access to credit:

- Currently, rich households get most formal credit while poor depend on informal sources
- Increased lending by banks would ensure poor also benefit from cheap loans
- This would reduce inequality and promote social justice

5. Break exploitation cycles:

- Informal lenders often exploit borrowers through high interest and unfair practices
- More formal credit would free people from this exploitation
- It would give them better terms and legal protection

Therefore, expanding formal sector credit, especially in rural areas and to the poor, is essential for achieving inclusive and sustainable development.

SECTION D - Answer to Long Answer Question

Ans 18.

FUNCTIONING OF SELF-HELP GROUPS:

Formation and Savings:

- SHGs organize rural poor, particularly women, into small groups
- A typical SHG has 15-20 members from one neighborhood

- Members meet regularly and save collectively
- Saving per member varies from Rs 25 to Rs 100 or more, depending on ability
- These savings are pooled together in a group fund

Internal Lending:

- Members can take small loans from the group itself to meet their needs
- The group charges interest, but less than moneylenders
- Loans are given for various purposes - consumption needs, small businesses, emergencies

Bank Linkage:

- After a year or two of regular savings, the group becomes eligible for bank loans
- Bank sanctions loan in the name of the group
- Loan is meant to create self-employment opportunities for members
- Loans provided for releasing mortgaged land, working capital, housing, acquiring assets like sewing machines, livestock, etc.

Decision Making:

- Most important decisions are taken by group members
- Group decides about loans - purpose, amount, interest, repayment schedule
- Democratic and participatory process

OVERCOMING BARRIERS TO BANK LOANS:

1. Solving Collateral Problem:

- Individual poor people lack collateral, but SHG doesn't require individual collateral
- Loan is given to the group based on group's savings record
- Group's regular savings serve as evidence of creditworthiness
- Bank accepts group as a whole, not individual assets

2. Collective Responsibility:

- The group is collectively responsible for loan repayment
- Not just one person but all members ensure repayment
- Any non-repayment by one member is followed up seriously by others
- This peer pressure and group accountability makes SHGs reliable
- Banks trust the group mechanism even without traditional collateral

3. Simplified Process:

- One application covers entire group, reducing paperwork
- Group maintains its own records
- Bank deals with organized group rather than multiple individuals

IMPORTANCE OF SHGs:

1. Financial Inclusion:

- Brings poor, especially women, into formal financial system
- Provides access to credit at reasonable rates
- Helps overcome exploitation by moneylenders

2. Economic Empowerment:

- Creates self-employment opportunities
- Generates regular income for members
- Improves economic condition of families
- Reduces poverty

3. Women's Empowerment:

- Makes women financially self-reliant
- Gives them control over economic resources
- Enhances their status in family and society
- Builds confidence and decision-making skills

ADDITIONAL BENEFITS BEYOND CREDIT:

1. Social Platform:

- Regular meetings provide platform to discuss social issues
- Members can raise concerns about health, nutrition, sanitation
- Group addresses issues like domestic violence
- Creates support network among women

2. Skill Development:

- Women learn financial management
- Develop savings discipline
- Gain organizational and leadership skills
- Learn to maintain records and accounts

3. Awareness and Education:

- Members become aware of rights and entitlements
- Learn about government schemes and services
- Get exposure to new ideas and opportunities
- Break isolation and connect with wider world

4. Social Empowerment:

- Women learn to speak up and participate in community decisions
- Develop collective voice for community issues
- Challenge social inequalities and discrimination
- Build solidarity among poor women

5. Building Blocks of Organization:

- SHGs serve as building blocks for larger organizations
- Can federate into larger networks
- Strengthen civil society
- Enable collective action on larger issues

CONCLUSION:

SHGs have proven to be an effective mechanism for financial inclusion and empowerment of the poor, especially women. By providing credit without requiring individual collateral, they overcome a major barrier that excludes poor from formal banking. Beyond credit, they provide social and personal development opportunities that transform lives. Success stories like Grameen Bank (with over 9 million members in Bangladesh, almost all women from poorest sections) demonstrate that poor women are not only reliable borrowers but can successfully run income-generating activities. Thus, SHGs are crucial for inclusive development and women's empowerment in developing countries like India.

SECTION E - Answers to Case Study Based Questions

Ans 19.

(a) Total interest for 10 years:

Simple interest = Principal × Rate × Time / 100

$$= \text{Rs } 5,00,000 \times 12 \times 10 / 100$$
$$= \text{Rs } 6,00,000$$

(Note: This is simple interest calculation. In reality, banks use reducing balance method where interest is calculated on reducing principal, so actual interest would be less. However, for this level, simple interest calculation is appropriate.)

(b) The bank asked for employment records and salary documents for the following reasons:

- To verify that Megha has a regular source of income
- To ensure that her salary is sufficient to repay the monthly installments
- To assess her creditworthiness and ability to repay the loan
- To confirm her employment stability
- To determine the maximum loan amount she can afford
- To reduce the risk of non-repayment

(c) If Megha is unable to repay the loan:

What will happen:

- The bank has the right to take possession of the house (which is the collateral)
- The bank can sell the house to recover the loan amount and interest
- Megha will lose her house
- The bank will use the sale proceeds to clear the outstanding debt
- If sale price exceeds the debt, the balance is returned to Megha
- If sale price is less than debt, Megha may still owe money to the bank

How collateral protects the bank:

- Collateral provides security to the bank against the loan
- It ensures that even if the borrower defaults, the bank can recover its money by selling the asset
- This reduces the bank's financial risk
- The value of collateral (house worth Rs 5 lakhs or more) covers the loan amount
- This is why banks insist on collateral before giving large loans - it's their guarantee of repayment either through installments or through sale of collateral

Ans 20.

(a) Total savings in 15 months:

$$20 \text{ members} \times \text{Rs } 50 \text{ per month} \times 15 \text{ months} = \text{Rs } 15,000$$

(This matches the amount mentioned in the case)

(b) Difference in interest rates:

- SHG charged Lakshmi: 10% annual interest
- Bank charged SHG: 11% annual interest
- Difference = 11% - 10% = 1%

The SHG charges members slightly lower rate than what bank charges the SHG. The 1% difference helps cover the SHG's operational costs and any risk of default. Still, this is much better than the 36-60% that moneylenders charge.

(c) SHGs help in women's empowerment in the following ways evident from the case:

(i) Economic Independence and Entrepreneurship:

Lakshmi was able to get a loan of Rs 6,000 to buy a sewing machine and start a tailoring business from home. This demonstrates how SHGs enable women to become self-employed and economically independent. Without the SHG, Lakshmi would not have been able to afford a sewing machine or get a loan from a bank (due to lack of collateral). Now she has her own business, generates income, and

doesn't have to depend on others for money. This economic independence transforms her status in family and society.

(ii) Collective Strength and Access to Larger Opportunities:

The case shows that after two years of successful operations, the SHG was able to secure a Rs 1,00,000 loan from the bank for its members. This would have been impossible for individual poor women. Through collective effort and regular savings, the group built credibility with the bank. This demonstrates how SHGs give women collective strength and bargaining power. The group distributed this large amount among members for various income-generating activities, multiplying the impact. Women learn that by organizing together, they can access resources and opportunities that are denied to them individually. This builds confidence, leadership skills, and sense of solidarity among women.

Additional points from the case:

- Women learned financial discipline through regular savings
- They developed trust and cooperation through group work
- They gained skills in decision-making (deciding whom to give loan, for what purpose)
- They demonstrated that poor women are reliable borrowers and successful entrepreneurs

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