

CHAPTER 4.3

Money And Credit

1. OBJECTIVE QUESTIONS

1. Money is based on
(a) double coincidence of wants
(b) single coincidence of wants
(c) Both a and b
(d) none of these
Ans : (a) double coincidence of wants
2. A system where goods were exchanged without using money is better known as
(a) goods system (b) exchange system
(c) barter system (d) no-money system
Ans : (c) no-money system
3. Money is a measured of
(a) currency (b) value
(c) transfer (d) all of these
Ans : (a) currency
4. A porter making pots, wants to exchange pots for wheat. Luckily, he meets a farmer who has wheat and is willing to exchange it for the pots. What is this situation known as?
(a) Incidence of wants
(b) Double coincidence of wants
(c) Barter system of wants
(d) None of the above
Ans : (b) Double coincidence of wants
5. The problem of similar wants made exchange difficult, so a new medium of exchange was developed known as
(a) capital (b) cost
(c) rent (d) money
Ans : (d) money
6. A substitute of cash and cheque is
(a) credit card (b) coin
(c) currency (d) demand deposit
Ans : (a) credit card
7. Modern forms of money include which of the following?
(a) Currency notes and coins
(b) Cowrie shells and stones
(c) Gold and silver coins
(d) Grains and cattle
Ans : (a) Currency notes and coins
8. Organised credit is also called
(a) informal credit (b) formal credit

- (c) cooperative credit (d) none of these

Ans : (b) formal credit

9. What is the most important function of money?
(a) Used in banking transactions
(b) Payment of loans
(c) Medium of exchange
(d) Stock market exchange

Ans : (c) Medium of exchange

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10. Bank laying down norms for bank is
(a) RBI (b) SBI
(c) syndicate bank (d) all of these
Ans : (a) RBI
11. Raghav has surplus money so he opens a bank account and deposits in it. Whenever he needs money, he can go to his bank and withdraw from there. This kind of deposit with the banks are known as
(a) demand deposit
(b) term deposit
(c) fixed deposit
(d) surplus deposit
Ans : (a) demand deposit
12. A person can withdraw money by issuing a cheque. What is a cheque?
(a) Loan taken by the bank.
(b) Loan taken by the depositor from the bank.
(c) Paper instructing the bank to pay a specific amount.
(d) Paper valid to withdraw money
Ans : (c) Paper instructing the bank to pay a specific amount.
13. In agricultural stage grains were used as
(a) money (b) commodity
(c) ingredient (d) none of these
Ans : (a) money

14. What is the most important function of the banks?
 (a) Accept deposits and extend loans.
 (b) Give loans to government.
 (c) Open as many bank accounts as possible.
 (d) Give loans to businesses.
Ans : (a) Accept deposits and extend loans.
15. Banks give out loans and charge on the loan amount from the borrower.
 (a) rent (b) wages
 (c) interest (d) money
Ans : (c) interest
16. All the banks act as mediator between and
 (a) rural people, urban people
 (b) literates, illiterates
 (c) people, government
 (d) depositors, borrowers
Ans : (d) depositors, borrowers
17. Percentage of formal sector in total credit in India in poor household is
 (a) 15 (b) 20
 (c) 70 (d) 80
Ans : (a) 15
18. Which among the following lenders will possibly not ask the borrower to sign the terms of credit?
 (a) Banks
 (b) Moneylenders
 (c) Cooperatives
 (d) Private agencies
Ans : (b) Moneylenders
19. Chit fund come under
 (a) organised credit (b) unorganised credit
 (c) discounted coupon (d) none of these
Ans : (b) unorganised credit
20. Method of repayment of loan is called
 (a) mode of payment (b) method of payment
 (c) mode of repayment (d) none of these
Ans : (c) mode of repayment
21. Which among the following is not a feature of informal source of credit?
 (a) It is supervised by the Reserve Bank of India.
 (b) Rate of interest is not fixed.
 (c) Terms of credit are very flexible.
 (d) Traders, employers, friends, relatives, etc provide informal credit source.
Ans : (a) It is supervised by the Reserve Bank of India.
22. An example of cooperative society can be of
 (a) farmers (b) workers
 (c) women (d) all of these
Ans : (d) all of these

23. A trader provides farm inputs on credit on the condition that farmers will sell their crop produce to him at prices so that he could sell them at prices in the market.
 (a) high, medium (b) low, high
 (c) medium, high (d) high, low
Ans : (b) low, high
24. Which of the following is not a feature of Self Help Groups (SHGs)?
 (a) It consists of 15-20 members or more.
 (b) Here members pool their savings which acts as collateral.
 (c) Loans are given at nominal rate of interest.
 (d) It is an informal source of credit.
Ans : (d) It is an informal source of credit.
25. Ram and Shyam are small farmers. Ram has taken credit 1.5% per month on < 20000 from a trader while Shyam has taken credit at 8% per annum from bank on the same amount. Who is better off?
 (a) Ram is better because he has to do no paperwork.
 (b) Shyam is better because his interest payment is less.
 (c) Ram is better because he has not paid any collateral.
 (d) Both Ram and Shyam are equal so no one is better off.
Ans : (b) Shyam is better because his interest payment is less.

2. FILL IN THE BLANK

DIRECTION : Complete the following statements with appropriate word(s).

- is used as a substitute for cash.
Ans : Credit card
- Modern forms of money include (gold coins/paper notes)
Ans : Paper notes
- Banks in India these days, hold about % of their deposits as cash.
Ans : 15%
- Deposits in bank accounts withdrawn on demand are called
Ans : Demand deposits
- Since money acts as an intermediate in the exchange process, it is called
Ans : Medium of exchange
- Major portion of the deposits is used by banks for
Ans : Extending loans

3. TRUE/FALSE

DIRECTION : Read each of the following statements and write if it is true or false.

- The main source of income for banks is interest on deposits.
Ans : False
- In a SHG, most of the decisions regarding savings and loan activities are taken by government.
Ans : False
- A 'debt trap' means overspending till no money is left.
Ans : False
- The collateral demand that lenders make loans against are vehicle and building of the borrower.
Ans : True
- Gramin Bank is the success story that met the credit needs of the poor at reasonable rates in Bangladesh
Ans : True

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4. ASSERTION AND REASON

DIRECTION : Mark the option which is most suitable :

- If Both assertion and reason are true, and reason is the correct explanation of assertion.
 - If Both assertion and reason are true, but reason is not the correct explanation of assertion.
 - If Assertion is true, but reason is false.
 - If Both assertion and reason are false.
- Assertion :** The modern currency is used as a medium of exchange; however, it does not have a use of its own.
Reason : Modern currency is easy to carry
Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.
The modern currency is used as a medium of exchange because it is accepted and authorized as a medium of exchange by a country's government.
 - Assertion :** In India, no individual can refuse to accept a payment made in rupees.
Reason : Rupee is the legal tender in India.
Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.
The law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

- Assertion :** The facility of demand deposits makes it possible to settle payments without the use of cash.
Reason : Demand deposits are paper orders which make it possible to transfer money from one person's account to another person's account.
Ans : (d) Both assertion and reason are false.

The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash. Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.

- Assertion :** Banks keep only a small proportion of their deposits as cash with themselves.
Reason : Banks in India these days hold about 15 per cent of their deposits as cash.

Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

Banks keep only a small proportion of their deposits as cash with themselves because they use the major portion of the deposits to extend loans as there is a huge demand for loans for various economic activities.

- Assertion :** Banks charge a higher interest rate on loans than what they offer on deposits.
Reason : The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

Banks in India hold about 15 per cent of their deposits as cash as the remaining deposits are used to provide loans. The interest charged on loans is higher than the interest paid on deposits and the difference between the two interest rates is the major source of income for banks.

- Assertion :** Rohan took credit in the form of advance payment from a buyer and he delivered the goods to the buyer on time and also earned profit. The credit made Rohan better off in this situation.

Reason : Credit can never push a person into a debt trap.

Ans : (c) Assertion is true, but reason is false.

The credit made Rohan better off in this situation, however, Rohan would have been worse off if he had failed to deliver the goods on time or he had made a loss in the production process. The latter two situations may have caused Rohan to fall in a debt trap.

- Assertion :** Credit would be useful or not depends on the risk involved in a situation.
Reason : The chance of benefitting from credit is highest in agriculture sector.

Ans : (c) Assertion is true, but reason is false.

Whether credit would be useful or not depends on the risks in the situation and whether there is some support, in case of loss.

- Assertion :** Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a

lender until the loan is repaid.

Reason : Collateral is given as the lender can sell the collateral to recover the loan amount if the borrower fails to repay the loan.

Ans : (a) Both assertion and reason are true, and reason is the correct explanation of assertion.

Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing. In case of failure of repayment of loan, the lender can sell the collateral to recover the loan amount.

9. **Assertion :** The terms of deposit are same for all credit arrangements.

Reason : Credit arrangements are very complex process so to remove the complexities same terms of deposits are used.

Ans : (d) Both assertion and reason are false.

The terms of credit vary substantially from one credit arrangement to another. They may vary depending on the nature of the lender and the borrower.

10. **Assertion :** The Reserve Bank of India supervises the functioning of formal sources of loans.

Reason : The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.

Ans : (b) Both assertion and reason are true, but reason is not the correct explanation of assertion.

The RBI oversees the functioning of commercial banks. The reason statement substantiates the assertion but it is not the explanation for the assertion.

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