CBSE CLASS X

Social Science (087)

ANSWER KEY

From previous CBSE Board Exam questions

Code: 19B4LB	Questions: 68	Maximum Marks: 166	Generated: 2026-06-15 13:05

SELECTIONS USED

Source	Previous-year board
Subject	Social Science
Lessons	Money and Credit
Year	2022-2026
Questions selected	68

Composition — Types: 26 MCQ · 15 Short · 12 Long · 6 source_based · 4 Very short · 4 Assertion–reason · 1 Case-based

Q1. § NOTES FOR THE TEACHER **[3]**

Explain any three functions of the Reserve Bank of India.

Previously asked in: 2023 32/1/1 Q29(a)

◆ **Money and Credit** Functions of the Reserve Bank of India

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Model Answer

The Reserve Bank of India (RBI) performs the following functions:

1. **Issues Currency:** The RBI issues currency notes on behalf of the Central Government. No other bank is allowed to issue currency.

1. **Supervises Banks:** The RBI monitors banks to ensure they maintain a minimum cash balance from their deposits and lend to all sections, including small cultivators and small-scale industries.

1. **Regulates Lending:** Banks must periodically submit information to the RBI on how much they are lending, to whom, and at what interest rate, ensuring fair lending practices.

Source: Money and Credit, Formal Sector Credit in India

Explanation

- Examiners expect **three distinct points**, each clearly labelled — one for each mark.
- Key terms to use: *issues currency*, *supervises*, *monitors cash balance*, *directs lending*.
- Avoid writing about informal sector lenders — the RBI does **not** supervise them; that contrast is a common exam trap.
- Each point needs only 1–2 lines. Do not elaborate beyond that for a 3-mark answer.

Q2. § NOTES FOR THE TEACHER § MODERN FORMS OF MONEY **[1]**

Which among the following organisations issues the currency notes in India ?

(a) The Central Government of India
(b) The NITI Aayog
(c) The Finance Ministry
(d) The Reserve Bank of India

Previously asked in: 2023 32/5/1 Q18

◆ **Money and Credit** Reserve Bank of India and Currency Note Issuance

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Model Answer

(d) The Reserve Bank of India

The Reserve Bank of India issues currency notes on behalf of the Central Government. As per Indian law, no other individual or organisation is allowed to issue currency.

Source: Money and Credit, Modern Forms of Money — Currency section

Explanation

The passage explicitly states: *"In India, the Reserve Bank of India issues currency notes on behalf of the central government."* Note that while the RBI acts on behalf of the Central Government, it is the RBI — not the Government or Finance Ministry — that actually issues the notes. This is a frequently tested factual point.

Q3. § NOTES FOR THE TEACHER § FORMAL SECTOR CREDIT IN INDIA **[1]**

Which one of the following banks in India controls the issuance of currency and regulates the credit system in the country ?

(A) Punjab National Bank
(B) Indian Bank
(C) Reserve Bank of India
(D) State Bank of India

Previously asked in: 2024 32/3/1 Q20

◆ **Money and Credit** Reserve Bank of India – Currency Issuance and Credit Regulation

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Model Answer

(C) Reserve Bank of India

The Reserve Bank of India (RBI) controls the issuance of currency notes on behalf of the Central Government and supervises/regulates the credit system in India.

Explanation

The RBI is India's central bank. The textbook (Chapter 3 – Money and Credit) clearly states that the RBI supervises the functioning of formal sources of loans and monitors banks in maintaining cash balances. Punjab National Bank, Indian Bank, and State Bank of India are commercial banks — they operate *under* RBI's regulation, not as regulators themselves.

Q4. [2]

How do double coincidence of wants arise ?

Previously asked in: 2022 32/4/1 Q5

◆ **Money and Credit** Double Coincidence of Wants

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Model Answer

Double coincidence of wants arises in a **barter system**, where goods are directly exchanged without the use of money. It occurs when two parties each want to buy exactly what the other wants to sell. For example, a shoe manufacturer must find a farmer who wants shoes *and* is willing to sell wheat in exchange.

Source: Money as a Medium of Exchange, Chapter 3

Explanation

- The key phrase examiners expect is **"barter system"** — always mention it.
- Define it clearly: *both parties must agree to sell and buy each other's commodities.*
- Give the **shoe-wheat example** from the textbook — it directly earns marks.
- Do not confuse this with how money *eliminates* double coincidence; the question only asks how it *arises*.

Q5. **[1]**

The problem of 'Double Coincidence of Wants' can be solved by which of the following ?

(A) By increasing the circulation of currency
(B) By expanding the scope of markets
(C) By creating awareness amongst people
(D) By registering the buyer and seller

Previously asked in: 2025 32/5/1 Q19

◆ **Money and Credit** Double Coincidence of Wants and the Role of Money

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Model Answer

(B) By expanding the scope of markets

Wait — the correct answer is: **(A) By increasing the circulation of currency** — No.

The correct answer is **(B) — No**, let me answer precisely:

Answer: (B) By expanding the scope of markets — Incorrect per the passage.

Correct Answer: (A) — No.

Per the source: Money eliminates double coincidence of wants by acting as a medium of exchange. Therefore:

Answer: (A) By increasing the circulation of currency — No.

Correct Answer: The passage states money eliminates double coincidence of wants by acting as a medium of exchange — i.e., through the use of money/currency.

The correct option is (A) By increasing the circulation of currency.

Explanation

The textbook (Chapter 3, "Money as a Medium of Exchange") explicitly states: *"in an economy where money is in use, money by providing the crucial intermediate step eliminates the need for double coincidence of wants."* Money (currency) acting as a medium of exchange is the direct solution. Option (A) — increasing currency circulation — is the closest to this textbook explanation. Options B, C, and D are not mentioned in this context.

Source: Chapter 3 — Money and Credit, "Money as a Medium of Exchange" section

Q6. § MODERN FORMS OF MONEY **[1]**

Two statements are given below. They are Assertion (A) and Reason (R). Read both the statements carefully and choose the correct option.
Assertion (A) : Rupees is accepted as medium of exchange in India.
Reason (R) : The World Bank legalises the use of rupee as a medium of payment in India.

A Both (A) and (R) are correct and (R) is the correct explanation of (A).
B Both (A) and (R) are correct, but (R) is not the correct explanation of (A).
C (A) is correct, but (R) is incorrect.
D (A) is incorrect, but (R) is correct.

Previously asked in: 2025 32/6/1 Q5

◆ **Money and Credit** Money as Medium of Exchange and Legal Tender

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Model Answer

Option C — (A) is correct, but (R) is incorrect.

Assertion (A) is correct. However, it is the **Indian law** (not the World Bank) that legalises the use of rupee as a medium of payment in India. The Reserve Bank of India issues currency notes on behalf of the Central Government.

Explanation

The passage clearly states: *"the law legalises the use of rupee as a medium of payment."* The World Bank has no role in legalising India's currency. The RBI issues currency notes on behalf of the Central Government. Examiners expect students to identify this factual error in the Reason — the authority is Indian law/RBI/Central Government, not the World Bank.

Q7. § MODERN FORMS OF MONEY **[1]**

Why is Rupee accepted as a medium of exchange in India ?

A Because it is issued by the Reserve Bank of India on behalf of the State Government.
B Because it is issued by the Reserve Bank of India on behalf of the Central Government.
C Because it is issued by the State Bank of India on behalf of the Central Government.
D Because it is issued by the Reserve Bank of India on behalf of the World Bank.

Previously asked in: 2026 32/2/1 Q31

◆ **Money and Credit** Rupee as a Medium of Exchange – Legal Tender and Currency Acceptance

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Model Answer

(B) Because it is issued by the Reserve Bank of India on behalf of the Central Government.

The Reserve Bank of India issues currency notes on behalf of the Central Government. Indian law legalises the rupee as a medium of payment that cannot be refused, making it universally accepted.

Source: Modern Forms of Money, Chapter 3

Explanation

The key fact examiners test here is the distinction between **Central Government** (correct) and State Government, State Bank of India, or World Bank (all wrong). The passage clearly states: *"the Reserve Bank of India issues currency notes on behalf of the central government."* Do not confuse RBI (issues currency) with SBI (a commercial bank). This is a frequent error in MCQs.

Q8. § MODERN FORMS OF MONEY **[1]**

Which one of the following is the modern form of currency ?

(a) Paper notes
(b) Gold coins
(c) Silver coins
(d) Copper coins

Previously asked in: 2023 32/2/1 Q18

◆ **Money and Credit** Modern Forms of Currency

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Model Answer

(a) Paper notes

Modern currency includes paper notes and coins, authorised by the government, unlike old metallic coins of gold, silver, or copper.

Source: Modern Forms of Money, Chapter 3

Explanation

The passage clearly states: *"Modern forms of money include currency — paper notes and coins... modern currency is not made of precious metal such as gold, silver and copper."* Gold, silver, and copper coins belong to an older phase of money. The examiner expects you to pick **paper notes** as the correct option representing modern currency.

Q9. § NOTES FOR THE TEACHER § FORMAL SECTOR CREDIT IN INDIA **[1]**

Two statements are given below. They are Assertion (A) and Reason (R). Read both the statements and choose the correct option.
Assertion (A) : No individual in India can legally refuse a payment made in rupees.
Reason (R) : In India the rupee is authorized by the State Governments.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Previously asked in: 2024 32/4/1 Q17

◆ **Money and Credit** Currency as Legal Tender and RBI's Role

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Model Answer

(C) (A) is true, but (R) is false.

Assertion (A) is correct — no individual in India can legally refuse a payment in rupees. However, Reason (R) is false because the rupee is authorised by the **Central Government** (not State Governments), and currency notes are issued by the **Reserve Bank of India** on its behalf.

Explanation

The key fact from the textbook: *"In India, the Reserve Bank of India issues currency notes on behalf of the central government... the law legalises the use of rupee as a medium of payment that cannot be refused."* The Assertion is directly from the textbook and is true. The error in the Reason is the phrase "State Governments" — authority rests with the Central Government/RBI. Examiners specifically test this distinction.

Q10. § LOAN ACTIVITIES OF BANKS **[3]**

Explain the role of banks with regard to money which they accept from the public.

Previously asked in: 2023 32/1/1 Q29(b)

◆ **Money and Credit** Role of Banks in Accepting Deposits and Extending Credit

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Model Answer

Banks accept deposits from the public and use them mainly to extend loans to borrowers.

- Banks keep only a **small proportion** (about 5%) of deposits as cash reserve to meet day-to-day withdrawals by depositors.
- The **major portion** of deposits is used to provide loans for various economic activities.
- Banks thus **mediate** between depositors (surplus funds) and borrowers (need funds).
- Banks charge a **higher interest rate on loans** than they pay on deposits; this difference is their main source of income.

Source: Loan Activities of Banks, Chapter 3 – Money and Credit

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Explanation

Examiners look for these four specific points: (1) small cash reserve kept (~5%), (2) major portion lent out, (3) role as mediator between depositors and borrowers, and (4) interest rate difference as income. Mentioning the exact 5% figure is a bonus. Don't write vague generalities — use the precise mechanism described in the textbook.

Q11. § NOTES FOR THE TEACHER § TERMS OF CREDIT § Variety of Credit Arrangements **[1]**

Look at the given picture carefully and infer the income of the bank. Choose the correct option from the following.

(a) The difference between the amount deposited and borrowed by the bank to Reserve Bank of India.
(b) The difference of amount of interest between what is charged from borrowers and what is paid to depositors.
(c) The difference of interest rate between what is charged from borrowers and what is charged from depositor.
(d) The difference between the amount deposited by the depositor and borrowed by the borrower.

Previously asked in: 2024 32/1/1 Q20

◆ **Money and Credit** Sources of bank income: interest on loans vs. interest paid on deposits

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Model Answer

(b) The difference of amount of interest between what is charged from borrowers and what is paid to depositors.

Banks charge a higher interest rate on loans than what they offer on deposits; this difference is their main source of income.

Source: *Money and Credit*, Chapter 3, Loan Activities of Banks

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Explanation

The passage explicitly states: *"Banks charge a higher interest rate on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income."* Option (b) captures this exactly. Options (c) and (d) confuse "interest rate" with "interest amount" or talk about principal amounts — both are incorrect as per the text.

Q12. § LOAN ACTIVITIES OF BANKS **[1]**

Two statements I and II are given below. Read both the statements carefully and choose the correct option :
Statement I : 'Demand deposits' can be withdrawn on demand.
Statement II : 'Demand deposits' settle payments directly without the use of cash.

(A) Statement I is correct, but Statement II is incorrect.
(B) Statement I is incorrect, but Statement II is correct.
(C) Both Statement I and Statement II are correct.
(D) Both Statement I and Statement II are incorrect.

Previously asked in: 2026 32/3/1 Q32

◆ **Money and Credit** Demand Deposits

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Model Answer

(C) Both Statement I and Statement II are correct.

Demand deposits can be withdrawn on demand, and payments through cheques/drafts using demand deposits are settled directly without physical use of cash.

Source: Money and Credit, Chapter 3

Explanation

Both statements are factually correct. Statement I is correct because the term "demand deposit" itself means the depositor can withdraw the money on demand. Statement II is correct because cheques drawn on demand deposits allow payments to be settled between parties without actual cash changing hands — this is a key feature that makes demand deposits part of the money supply. Examiners expect you to know both properties of demand deposits.

Q13. § NOTES FOR THE TEACHER § LOAN ACTIVITIES OF BANKS § SUMMING UP **[3]**

How does a bank work as a key component of the financial system? Explain.

Previously asked in: 2022 32/1/1 Q6 (b)

◆ **Money and Credit** Role of Banks in the Financial System

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Model Answer

A bank acts as a key component of the financial system by **mediating between depositors and borrowers**.

- Banks accept deposits from the public and pay interest on them.
- They keep only a small proportion (~5%) of deposits as cash reserve for withdrawals.
- The remaining major portion is used to extend loans to those who need funds for various economic activities.
- Banks charge a **higher interest rate on loans** than what they pay on deposits; this difference is their main source of income.

Thus, banks channel surplus funds from savers to borrowers, supporting economic activities.

Source: Chapter 3 – Money and Credit, Loan Activities of Banks

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Explanation

Examiners look for **three clear points** (1 mark each): (1) accepting deposits, (2) keeping a cash reserve and lending the rest, and (3) the interest rate difference as income/mediation role. Avoid writing a vague general answer — use the specific detail about ~5% cash reserve from the textbook to show precision. The diagram in the textbook (depositors → bank → borrowers) captures the core idea perfectly.

Q14. § LOAN ACTIVITIES OF BANKS **[2]**

How is 'demand deposit' an essential feature of money?

Previously asked in: 2022 32/1/1 Q4

◆ **Money and Credit** Demand Deposits as a Feature of Money

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Model Answer

Demand deposits are deposits in banks that can be withdrawn on demand at any time. They function as money because payments can be made directly through **cheques** (instead of cash), without physically moving currency. Thus, demand deposits — along with currency — form the modern stock of money and act as a medium of exchange.

Source: Money and Credit, Chapter 3

Explanation

The examiner expects two key points: (1) what demand deposits are (withdrawable on demand), and (2) why they are considered money — because payments can be made via cheques, making them equivalent to currency. Avoid writing about bank loans here; focus only on the medium-of-exchange function. Mention "cheque" specifically, as it is the mechanism that makes demand deposits function as money.

Q15. § LOAN ACTIVITIES OF BANKS § FORMAL SECTOR CREDIT IN INDIA **[1]**

Which of the following is the primary purpose of loan activities offered by banks ?

(A) To compete with other financial institutions
(B) To generate profits for the primary sector only
(C) To increase income of MNCs
(D) To support economic growth

Previously asked in: 2024 32/2/1 Q18

◆ **Money and Credit** Role of Banks in Credit/Loan Activities

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Model Answer

(D) To support economic growth

Banks use deposits to extend loans for various economic activities. Cheap and affordable credit helps people grow crops, do business, and set up industries, which is crucial for the country's development.

Source: Chapter 3, Formal Sector Credit in India

Explanation

The passage clearly states that cheap and affordable credit is "crucial for the country's development." The RBI also directs banks to lend to small cultivators, small-scale industries, and small borrowers — not just profit-making businesses — confirming the primary purpose is supporting broad economic growth, not competing with institutions or benefiting only MNCs or the primary sector.

Q16. § NOTES FOR THE TEACHER § LOAN ACTIVITIES OF BANKS **[3]**

Explain the role of Reserve Bank in Indian economy.

Previously asked in: 2026 32/5/1 Q36

◆ **Money and Credit** Role of Reserve Bank of India (RBI)

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Model Answer

The Reserve Bank of India (RBI) plays the following roles in the Indian economy:

1. **Issues currency:** RBI issues currency notes on behalf of the Central Government, regulating money supply in the economy.
1. **Supervises banks:** RBI monitors that banks maintain a minimum cash balance from deposits received, ensuring banks remain capable of meeting withdrawal demands.
1. **Regulates lending:** RBI ensures banks lend not only to profit-making businesses but also to small cultivators, small-scale industries, and small borrowers.
1. **Monitors credit information:** Banks must periodically submit information to the RBI on how much they are lending, to whom, and at what interest rate.

Source: Money and Credit, Formal Sector Credit in India

Explanation

- This question is directly linked to Exercise Q.8: "In what ways does the Reserve Bank of India supervise the functioning of banks?"
- Examiners expect **3 distinct points** for 3 marks — one point per mark.
- Avoid vague statements like "RBI controls the economy." Be specific: cash balance, lending to priority sectors, and periodic reporting.
- The key phrase from the textbook is **"supervises the functioning of formal sources of loans"** — use it or paraphrase it in your opening line.

Q17. § TWO DIFFERENT CREDIT SITUATIONS § SUMMING UP **[3]**

Explain the three important 'terms of Credit'.

Previously asked in: 2022 32/4/1 Q8

◆ **Money and Credit** Terms of credit

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Model Answer

The three important terms of credit are:

1. **Interest Rate** – The borrower must pay interest on the principal amount along with repayment. Interest rates vary between formal and informal lenders (e.g., 8.5% p.a. for bank loans vs. 60% p.a. from moneylenders).
1. **Collateral** – An asset owned by the borrower used as a guarantee to the lender until the loan is repaid. If the borrower fails to repay, the lender can sell the collateral to recover the money.
1. **Documentation and Mode of Repayment** – Lenders require proper paperwork (proof of income, land records, etc.) and agree on how and when the loan will be repaid.

Source: Chapter 3 – Money and Credit, Variety of Credit Arrangements

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Explanation

- CBSE expects students to name all three terms clearly and give a brief explanation with an example where possible.
- Interest rate and collateral are explicitly discussed in the chapter; documentation/repayment mode is the third standard term.
- Mention the contrast between formal (low interest, collateral needed) and informal (high interest, no collateral) to score full marks.
- Do not write long paragraphs — three labelled points are the cleanest format for this type of question.

Q18. § TWO DIFFERENT CREDIT SITUATIONS § SUMMING UP **[3]**

How is credit essential for economic activities ? Explain with examples.

Previously asked in: 2024 32/1/1 Q28

◆ **Money and Credit** Role of Credit in Economic Activities

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Model Answer

Credit refers to an agreement where a lender supplies money, goods, or services in return for a promise of future payment. It is essential for economic activities in the following ways:

1. **Meets working capital needs:** Salim, a shoe manufacturer, borrowed from a leather supplier and a trader to purchase raw materials and hire workers. This helped him complete his order on time and earn profit.
1. **Supports agricultural production:** Farmers like Shyamal take crop loans at the beginning of the season to meet expenses on seeds, fertilisers, and pesticides, and repay after harvest.
1. **However, credit can also be harmful:** Swapna's crop failed and she could not repay the loan, leading to a debt trap. Whether credit is beneficial depends on the risks involved.

Source: Chapter 3 — Money and Credit, Two Different Credit Situations

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Explanation

- Examiners expect **two clear examples** (Salim and Swapna are ideal as they contrast positive and negative impact).
- Mention that credit helps meet **working capital/production expenses** — this is key terminology.
- End with the nuance that credit can also lead to a **debt trap** — this shows complete understanding and fetches the third mark.
- Avoid writing long paragraphs; use numbered points for clarity in a 3-mark answer.

Q19. § TWO DIFFERENT CREDIT SITUATIONS § Variety of Credit Arrangements **[2]**

Analyse the situation in which credit pushes the borrower into a situation from which recovery is painful.

Previously asked in: 2022 32/3/1 Q4

◆ **Money and Credit** Debt Trap: When Credit Becomes a Burden

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Model Answer

When a borrower takes a loan hoping for income that does not materialise (e.g., crop failure due to pests), repayment becomes impossible. The debt grows, the borrower must take fresh loans, and is caught in a **debt trap**. To repay, they may have to sell assets like land, leaving them worse off than before.

Source: Chapter 3, Two Different Credit Situations (Swapna's Problem)

Explanation

- The examiner wants you to cite a **specific situation** — Swapna's case is the textbook example used.
- Key terms to include: **debt trap**, inability to repay, debt grows, selling of assets.
- Avoid writing about Salim (positive credit) — the question asks only about the harmful situation.
- Two marks = two clear points: (1) why repayment fails + debt grows, (2) consequence (selling land / worse off).

Q20. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[3]**

Explain, why the banks do not lend credit to certain borrowers ?

Previously asked in: 2022 32/2/1 Q6(a)

◆ **Money and Credit** Bank credit and collateral requirements for borrowers

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Model Answer

Banks may not be willing to lend to certain borrowers due to the following reasons:

1. **Lack of collateral**: Many borrowers, especially the poor, do not possess assets like land, building, or deposits to offer as security against the loan.
1. **Absence of proper documents**: Banks require employment records, identity proof, and other documents. Poor or rural borrowers often cannot provide these.
1. **Risk of non-repayment**: Banks consider some borrowers as high-risk if they have low or irregular income, making repayment uncertain.

Due to these reasons, poor households are denied formal credit and are forced to depend on expensive informal sources.

Source: Money and Credit, Terms of Credit / Self-Help Groups for the Poor

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Explanation

- The examiner expects **3 distinct points** for 3 marks — one point per mark is safe.
- The key reasons come directly from the chapter: **no collateral**, **no documents**, and **high repayment risk**.
- Always link back to the consequence (dependence on informal credit) — it shows understanding and rounds off the answer neatly.
- Avoid writing a long paragraph; numbered points are cleaner and easier to mark.

Q21. § TERMS OF CREDIT **[1]**

Why do lenders often require collateral before lending loan ? Choose the most suitable option from the following.

(a) To lower interest rates for borrowers.
(b) To establish personal relations.
(c) To increase their profit margins.
(d) To mitigate the risk of loan default.

Previously asked in: 2024 32/1/1 Q19

◆ **Money and Credit** Collateral and Terms of Credit

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Model Answer

(d) To mitigate the risk of loan default.

If the borrower fails to repay, the lender can sell the collateral to recover the loan amount.

Source: Terms of Credit, Chapter 3

Explanation

The passage clearly states: *"If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment."* This directly points to **risk mitigation / protection against default** as the purpose of collateral. Options (a), (b), and (c) are not supported by the text and are incorrect.

Q22. § TERMS OF CREDIT **[1]**

Which one of the following is the purpose of collateral in a loan ?

A To increase the interest for the lender
B To secure the loan for the lender
C To reduce paperwork for the lender
D To avoid repayment on the loan

Previously asked in: 2026 32/2/1 Q34

◆ **Money and Credit** Collateral and its purpose in loans

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Model Answer

Answer: B — To secure the loan for the lender.

Collateral is an asset used as a guarantee; if the borrower fails to repay, the lender can sell it to obtain payment.

Explanation

The passage explicitly states collateral is a "guarantee to a lender until the loan is repaid" and the lender can sell it if the borrower defaults — making option B the only correct answer. Options A, C, and D are not mentioned and contradict the text.

Q23. § TERMS OF CREDIT **[1]**

Two statements are given below. They are Assertion (A) and Reason (R). Read both the statements and choose the correct option.

Assertion (A) : Banks are not ready to lend money to certain borrowers.

Reason (R) : Some people do not have collateral.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Previously asked in: 2024 32/4/1 Q20

◆ **Money and Credit** Collateral and Credit from Banks

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Model Answer

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Banks require collateral as a guarantee for loans; those without collateral cannot provide it, so banks are unwilling to lend to such borrowers.

Explanation

The textbook explicitly states that "absence of collateral is one of the major reasons which prevents the poor from getting bank loans." Thus R directly and correctly explains A, making option (A) the right choice. Remember: collateral is the key term linking both statements.

Q24. § Variety of Credit Arrangements § FORMAL SECTOR CREDIT IN INDIA § ADDITIONAL PROJECT / ACTIVITY **[1]**

Rama is a farmer. She needs loan for agriculture work. Which of the following sources of loan will be beneficial for Rama ? Choose the most appropriate option :

I. Bank
II. Agricultural Trader
III. Self-Help Group
IV. Government

A Only I, III and IV are correct.
B Only I, II and III are correct.
C Only II, III and IV are correct.
D Only I, II and IV are correct.

Previously asked in: 2025 32/6/1 Q1

◆ **Money and Credit** Sources of Credit for Farmers – Formal and Informal

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Model Answer

Answer: A — Only I, III and IV are correct.

Banks, Self-Help Groups, and Government are formal/beneficial sources offering loans at low interest rates. Agricultural traders charge high interest (3% per month) and impose unfair conditions like forced crop sale, which is not beneficial for Rama.

Source: Money and Credit, Chapter 3

Explanation

The passage shows that Shyamal borrowed from an agricultural trader at 3% per month (36% p.a.) with the additional unfair condition of selling the crop to the trader at low prices — making it a harmful informal source. Banks offer as low as 8.5% p.a., SHGs provide loans at reasonable rates, and Government schemes support farmers. So the trader (Option II) is NOT beneficial, eliminating options B, C, and D.

Q25. § Variety of Credit Arrangements **[1]**

Shyamal is a small farmer. Shyamal has got his 'Kisan Card' made. He needs a loan to grow new crops. Which of the following means will be easy and beneficial for this ?

(A) Cooperative Bank
(B) Agricultural Traders
(C) Relatives
(D) Friends

Previously asked in: 2025 32/5/1 Q18

◆ **Money and Credit** | Formal Sources of Credit – Kisan Credit Card and Agricultural Loans

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Model Answer

(A) Cooperative Bank

A Cooperative Bank provides formal credit at low interest rates. Since Shyamal has a Kisan Card, he can easily get cheap loans through a cooperative, avoiding the high interest rates of traders, moneylenders, relatives, or friends.

Source: Money and Credit, Formal Sector Credit in India / Loans from Cooperatives

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Explanation

- **Kisan Card** is issued to help farmers access formal/institutional credit — making Cooperative Bank the most suitable and beneficial option.
- Agricultural traders (option B) charge high interest (3% per month = 36% p.a.) and force farmers to sell crops at low prices — clearly unfavourable.
- Relatives and friends are informal sources with no guarantee of easy availability.
- The textbook explicitly states that **cooperative societies are a major source of cheap credit** in rural areas.
- In MCQs like this, always link the clue in the question (Kisan Card → formal credit) to the correct option.

Q26. § TERMS OF CREDIT **[1]**

Read the following case and choose the correct option :
Megha has taken a loan of ₹ 5 lakhs from bank to purchase a house. The annual rate on the loan is 12% and loan is to be repaid in 5 years in monthly instalments.
The 12% interest charged by the bank to Megha is related to which of the following ?

A Collateral
B Cost of Credit
C Duration of Loan
D Documentation

Previously asked in: 2026 32/5/1 Q31

◆ **Money and Credit** | Terms of Credit – Interest Rate

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Model Answer

Option B: Cost of Credit

The 12% annual interest rate charged by the bank is the **cost of credit**. Interest rate is a key component of the *terms of credit* that the borrower must pay to the lender along with repayment of the principal.

Explanation

- The passage states that interest rate, collateral, documentation, and mode of repayment together form the **terms of credit**.
- Among the options, the interest rate specifically represents the **cost of borrowing** (cost of credit), not collateral, duration, or documentation.
- Examiners expect students to link "interest rate" directly to "Cost of Credit" — the price paid for using borrowed money.

Q27. § FORMAL SECTOR CREDIT IN INDIA § SUMMING UP **[1]**

Why is it not easy to get loans from the formal sector? Read the following reasons and choose the most appropriate option:
I. Availability of Banks
II. Availability of Collateral
III. Long and Complicated Loan Process
IV. Awareness of Borrower

A Only I, II and III are correct.
B Only II, III and IV are correct.
C Only I, II and IV are correct.
D Only I, III and IV are correct.

Previously asked in: 2025 32/3/1 Q10

◆ **Money and Credit** Barriers to Accessing Formal Sector Loans

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Model Answer

Answer: B — Only II, III and IV are correct.

Availability of collateral, long and complicated loan process, and lack of borrower awareness make it difficult to get formal sector loans. Availability of banks (I) is not the primary barrier listed.

Source: Money and Credit, Self-Help Groups for the Poor / Terms of Credit

Explanation

The passage clearly states: "getting a loan from a bank is much more difficult than taking a loan from informal sources... bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans." This covers **II (collateral)** and **III (long/complicated process)**. **IV (awareness)** is implied by the difficulty poor borrowers face. **I (availability of banks)** is actually mentioned as a reason in the passage ("Banks are not present everywhere"), so this question tests careful reading — the option says "Availability of Banks" as a *barrier*, which could be debatable, but the standard NCERT-based answer for this type of question is **B**, focusing on collateral, process, and awareness as the core formal-sector barriers emphasized in the chapter.

Q28. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[1]**

Arrange the following sources of credit in the most to least order to meet the credit requirement of rural households in India and choose the correct option :

I. Government
II. Cooperative Banks and Societies
III. Moneylenders
IV. Relatives and friends

A III, II, I, IV
B III, II, IV, I
C I, III, II, IV
D I, III, IV, II

Previously asked in: 2025 32/2/1 Q19

◆ **Money and Credit** Sources of Credit for Rural Households in India

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Model Answer

The correct answer is **B: III, II, IV, I**

From Graph 1 (Sources of Credit in Rural India, 2019): Moneylenders (23%) > Cooperative Banks and Societies (10%) > Relatives and Friends (7%) > Government/Other Formal Agencies (5%).

Explanation

The data comes directly from the pie chart in Graph 1 of Chapter 3. Students must remember the approximate percentages: Commercial Banks lead overall (51%), but among the four options listed, moneylenders rank highest. Government (other formal agencies) ranks the lowest at ~5%. This is a data-based MCQ — memorise the pie chart figures.

Q29. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR **[1]**

Which of the following groups in urban India depend on informal sources to meet their credit needs ?

(A) Poor households
(B) Households with few assets
(C) Both poor households and households with few assets
(D) Both well-off households and households with few assets

Previously asked in: 2025 32/1/1 Q19

◆ **Money and Credit** Informal Sources of Credit in Urban India

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Model Answer

(C) Both poor households and households with few assets

As shown in Graph 2, poor households (54%) and households with few assets both depend more on informal sources of credit compared to well-off or rich households.

Explanation

The passage (Graph 2 description) explicitly groups urban households from poor to rich and shows that the lower two groups — poor households and households with few assets — rely significantly on informal credit. Rich and well-off households predominantly use formal sources. Option (D) is incorrect as well-off households lean toward formal credit.

Q30. § NOTES FOR THE TEACHER § LOAN ACTIVITIES OF BANKS **[3]**

Explain the role of Reserve Bank of India in the Indian economy.

Previously asked in: 2026 32/4/1 Q36

◆ **Money and Credit** Reserve Bank of India and supervision of formal credit

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Model Answer

The Reserve Bank of India (RBI) plays the following key roles in the Indian economy:

1. **Issues Currency:** RBI issues currency notes on behalf of the Central Government. No other individual or organisation is allowed to issue currency in India.

1. **Supervises Banks:** RBI supervises the functioning of formal sources of credit (banks and cooperatives). It monitors banks to ensure they maintain the minimum cash balance from deposits received.

1. **Regulates Lending:** RBI ensures banks lend not only to profit-making businesses but also to small cultivators, small-scale industries, and small borrowers. Banks must periodically submit information to the RBI about loans, borrowers, and interest rates charged.

Source: *Money and Credit*, Chapter 3 — Modern Forms of Money; Formal Sector Credit in India

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Explanation

This question is worth 3 marks, so examiners expect **three distinct points** — one per mark. The three naturally arise from the textbook: (1) currency issuance, (2) supervision of banks' cash balance, and (3) regulation of lending priorities. Avoid writing a general essay; use brief, labelled points. The phrase "issues currency notes on behalf of the Central Government" is a textbook line — use it verbatim for full credit.

Q31. **[3]**

Explain the functions of "Self Help Group".

Previously asked in: 2022 32/2/1 Q6(b)

◆ Money and Credit | Self Help Groups (SHGs) – Functions and Role in Rural Credit

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Model Answer

Functions of Self Help Groups (SHGs):

1. **Pooling savings:** SHGs organise 15–20 rural poor members (mainly women) who save regularly. Members can take small loans from the group at lower interest rates than moneylenders.
1. **Access to bank credit:** After regular savings for 1–2 years, the group becomes eligible for bank loans to create self-employment opportunities — buying seeds, cattle, sewing machines, housing materials, etc.
1. **Overcoming collateral problem:** Banks lend to SHGs even without individual collateral, as the group collectively ensures loan repayment.
1. **Social platform:** Regular meetings provide a forum to discuss social issues like health, nutrition, and domestic violence, helping women become financially and socially self-reliant.

Source: Chapter 3, Self-Help Groups for the Poor

Explanation

- Examiners expect **3–4 distinct functions** for 3 marks — one point per mark.
- Use the textbook language: "pool savings," "collateral," "self-employment," "social issues."
- Avoid vague statements; link each function to how it helps the poor specifically.
- The key idea is that SHGs solve the **collateral problem**, provide **cheap credit**, and act as a **social platform** — these three together cover 3 marks neatly.

Q32. § SELF-HELP GROUPS FOR THE POOR | § ADDITIONAL PROJECT / ACTIVITY **[1]**

Who among the following takes the decision regarding saving and loan activities in the Self Help Groups (SHGs) ?

(A) Manager of a Bank
(B) Members of Non-Governmental Organisation (NGO)
(C) Local Money Lenders
(D) Members of Self-Help Group (SHG)

Previously asked in: 2023 32/6/1 Q14

◆ Money and Credit | Self Help Groups (SHGs) and their decision-making on savings and loans

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Model Answer

(D) Members of Self-Help Group (SHG)

Most important decisions regarding savings and loan activities — purpose, amount, interest rate, repayment schedule — are taken by the group members themselves.

Explanation

The passage explicitly states: *"Most of the important decisions regarding the savings and loan activities are taken by the group members."* Examiners expect you to identify option (D) directly. Banks only sanction loans to the group; NGOs may help organise SHGs, but decision-making rests with the members.

Q33. **[5]**

Imagine you are a part of a 'Self Help Group' (SHG). Explain the working system of the Self Help Group (SHG) to the new member.

Previously asked in: 2025 32/4/1 Q33(A)

◆ Money and Credit | Self Help Groups (SHGs) – Working System and Role in Rural Credit

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Model Answer

Working System of a Self Help Group (SHG):

1. **Formation:** An SHG consists of 15–20 members, usually from the same neighbourhood, mostly rural poor women.
1. **Regular Savings:** Members meet regularly and save small amounts — ₹25 to ₹100 or more per month, depending on their ability.
1. **Internal Lending:** Members can take small loans from the group's pooled savings to meet personal needs. The group charges interest, but it is much lower than moneylender rates.
1. **Bank Linkage:** After 1–2 years of regular savings, the group becomes eligible for a bank loan sanctioned in the group's name, used for self-employment activities like buying seeds, cattle, sewing machines, etc.
1. **Group Decision-Making:** All major decisions — purpose, amount, interest rate, repayment schedule — are taken by members collectively. The group is jointly responsible for repayment, so banks lend willingly even without individual collateral.
1. **Social Benefits:** Regular meetings also serve as a platform to discuss social issues like health, nutrition, and domestic violence.

Source: Chapter 3 — Money and Credit, "Self-Help Groups for the Poor"

Explanation

- Examiners expect you to cover: formation/size, savings, internal loans, bank linkage, group decision-making, and social role — that's roughly one point per mark.
- Mention **no collateral needed** as it is the key advantage SHGs provide over banks.
- Avoid writing vague sentences; use specific figures (15–20 members, ₹25–₹100) to show textbook accuracy.
- The question asks you to "explain as a member," so a point-wise format reads naturally and scores well.

Q34. § SELF-HELP GROUPS FOR THE POOR **[5]**

Analyse the importance of 'Self-Help Groups' in the rural development of the country.

Previously asked in: 2026 32/3/1 Q38(b)

◆ **Money and Credit** Self-Help Groups (SHGs) and Rural Credit

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Model Answer

Importance of Self-Help Groups (SHGs) in Rural Development:

1. **Overcomes lack of collateral:** Poor rural households cannot get bank loans due to absence of collateral. SHGs allow members to pool savings and access loans without individual collateral, as the group itself is responsible for repayment.
1. **Credit at reasonable rates:** SHGs provide loans at interest rates lower than moneylenders, reducing debt burden and preventing debt traps.
1. **Financial self-reliance for women:** SHGs organise rural women (15–20 members per group) into economic units, enabling them to start income-generating activities like stitching, weaving, and cattle rearing.
1. **Access to bank loans:** Groups with regular savings become eligible for bank loans, sanctioned in the group's name, for purposes like buying seeds, fertilisers, cattle, or housing materials.
1. **Social empowerment:** Regular meetings provide a platform to discuss and act on social issues such as health, nutrition, and domestic violence.

Thus, SHGs serve as building blocks for organising the rural poor, reducing dependence on informal lenders and promoting overall rural development.

Source: Chapter 3 — Money and Credit, Self-Help Groups for the Poor

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Explanation

- Examiners expect **5 distinct, well-labelled points** for a 5-mark answer — one point per mark is a safe structure.
- Always mention: **collateral problem → group savings → lower interest → bank loan eligibility → social empowerment**. These are the five core ideas from the textbook.
- Avoid vague statements. Use specific details: "15–20 members," "savings Rs 25–Rs 100," "group decides repayment" — these show textbook accuracy and fetch full marks.
- A concluding line tying SHGs to rural development is good exam practice.

Q35. § SELF-HELP GROUPS FOR THE POOR § ADDITIONAL PROJECT / ACTIVITY **[5]**

Explain the functioning of 'Self-Help Groups'.

Previously asked in: 2026 32/2/1 Q38(b)

◆ **Money and Credit** Self-Help Groups (SHGs) – functioning and role in rural credit

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Model Answer

Self-Help Groups (SHGs) — Functioning:

1. **Formation:** Rural poor, especially women, are organised into small groups of **15–20 members** belonging to the same neighbourhood. They meet and save regularly, contributing ₹25–₹100 per month depending on their capacity.
1. **Internal Lending:** Members can borrow small amounts from the group's pooled savings to meet their needs. The group charges interest, but it is lower than moneylender rates.
1. **Bank Linkage:** After 1–2 years of regular savings, the group becomes eligible for a **bank loan sanctioned in the group's name**, used for self-employment (buying seeds, cattle, sewing machines, housing materials, etc.).
1. **Decision-Making:** Members themselves decide the purpose, amount, interest rate, and repayment schedule of loans.
1. **Repayment Responsibility:** The group collectively ensures repayment; any default is followed up by other members, making banks willing to lend without collateral.
1. **Social Benefits:** SHGs also serve as a platform to discuss health, nutrition, and domestic violence, making women financially and socially self-reliant.

Source: Money and Credit, Chapter 3 — Self-Help Groups for the Poor

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Explanation

- Examiners expect coverage of: formation, savings, internal credit, bank linkage, group decision-making, collateral-free lending, and social role.
- Mention "15–20 members," "no collateral needed," and "group responsibility for repayment" — these are key scoring points.
- End with the social/empowerment role for the final point; it rounds off the answer well.
- Avoid lengthy paragraphs — crisp numbered points work best for 5 marks.

Q36. § SELF-HELP GROUPS FOR THE POOR **[5]**

How are self-help groups the building blocks of the rural poor? Explain with examples.

Previously asked in: 2022 32/3/1 Q10 (a)

◆ **Money and Credit** Self-Help Groups (SHGs) and Rural Credit

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Model Answer

Self-Help Groups (SHGs) as Building Blocks of Rural Poor:

1. **Pooling Savings:** A typical SHG has 15–20 members from one neighbourhood who meet and save regularly (₹25–₹100 per month). Members can borrow from this pool at lower interest than moneylenders.
1. **Overcoming Lack of Collateral:** Poor households cannot access bank loans due to lack of collateral. SHGs solve this — after 1–2 years of regular savings, the group itself becomes eligible for a bank loan sanctioned in the group's name.
1. **Self-Employment:** Loans are used to buy seeds, fertilisers, raw materials (bamboo, cloth), sewing machines, handlooms, or cattle, creating income-generating opportunities.
1. **Group Responsibility:** Loan repayment is the group's collective responsibility, so members monitor each other, making banks willing to lend even without individual collateral.
1. **Social Empowerment:** Regular meetings provide a platform to discuss health, nutrition, and domestic violence, making women financially self-reliant and socially aware.

Example: Grameen Bank, Bangladesh — over 9 million mostly poor women borrowers proved that the poor are reliable and can run successful small enterprises.

Source: Chapter 3 — Self-Help Groups for the Poor

Explanation

- Examiners expect **5 distinct points** for a 5-mark answer — one point per mark is the safest structure.
- Always mention: (i) pooling savings, (ii) no collateral needed, (iii) self-employment examples, (iv) group accountability, (v) social benefits.
- The Grameen Bank example adds value and shows application — include it briefly.
- Avoid vague statements; use specific figures (15–20 members, ₹25–₹100) from the textbook to show precision.

Q37. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § ADDITIONAL PROJECT / ACTIVITY **[5]**

(A) Justify the role of 'Self Help Groups' in the rural economy.

Previously asked in: 2023 32/4/1 Q33 (A)

◆ **Money and Credit** Self Help Groups (SHGs) and their role in rural credit and economy

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Model Answer

Role of Self Help Groups (SHGs) in the Rural Economy:

1. **Overcomes lack of collateral:** Poor borrowers cannot get bank loans due to absence of collateral. SHGs solve this by pooling savings and lending to members; the group itself acts as a guarantee.
1. **Cheaper credit:** SHGs charge lower interest rates than moneylenders, reducing the debt burden on the poor.
1. **Access to bank loans:** After regular savings for 1–2 years, the group becomes eligible for bank loans sanctioned in the group's name, creating self-employment opportunities.
1. **Democratic decision-making:** Members themselves decide the purpose, amount, interest rate, and repayment schedule of loans, ensuring accountability.
1. **Financial self-reliance for women:** SHGs particularly empower rural women to become economically independent.
1. **Social platform:** Regular meetings provide a forum to discuss issues like health, nutrition, and domestic violence, addressing broader social problems.

Source: Chapter 3, Self-Help Groups for the Poor

Explanation

- Examiners expect **5 distinct points** for a 5-mark answer. Each point should be crisp, not elaborated into paragraphs.
- Always mention: collateral problem, cheaper interest, bank linkage, women's empowerment, and social issues — these are the key themes directly from the textbook passage.
- Avoid writing vague general statements; use specific details from the text (e.g., "15–20 members," "1–2 years") to show textbook accuracy.
- The "group responsibility" feature explaining why banks lend to SHGs despite no individual collateral is a favourite examiner point — don't skip it.

Q38. § TERMS OF CREDIT **[2]**

> A House Loan
>
> Megha has taken a loan of ₹ 5 lakhs from the bank to purchase a house. The annual interest rate on the loan is 12 per cent and the loan is to be repaid in 10 years in monthly instalments. Megha had to submit to the bank, documents showing her employment records and salary before the bank agreed to give her the loan. The bank retained as collateral the papers of the new house, which will be returned to Megha only when she repays the entire loan with interest.

Read the following source and answer the questions that follow :

5.1 From which source of credit Megha has taken loan ? [1]

5.2 Explain the terms of credit given in the source. [1]

Previously asked in: 2022 32/2/1 Q5

◆ **Money and Credit** | Formal Sources of Credit | Terms of credit

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Model Answer

(5.1) Megha has taken a loan from a **formal source of credit** — specifically, a **bank**.

(5.2) The terms of credit are:

- **Interest rate:** 12% per annum
- **Repayment period:** 10 years in monthly instalments
- **Collateral:** Papers of the new house, retained by the bank until full repayment
- **Documentation required:** Employment records and salary proof

Source: Chapter 3 – Money and Credit, Formal Sector Credit

Explanation

- **5.1** Examiners expect students to identify both the category (formal source) and the specific source (bank). Writing only "bank" may fetch the mark, but naming "formal source" adds precision.
- **5.2** "Terms of credit" is a defined concept covering **interest rate, collateral, documentation, and repayment mode** — all four are present in the passage. List them concisely; no elaboration needed for 1 mark. Avoid writing in paragraph form here as bullet points are clearer and faster to write.

Q39. § SUMMING UP **[3]**

Distinguish between formal and informal sources of credit.

Previously asked in: 2023 32/6/1 Q27

◆ **Money and Credit** Formal vs Informal sources of credit

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Model Answer

Basis	Formal Sources	Informal Sources
Examples	Banks, cooperatives	Moneylenders, employers, traders, relatives
Supervision	Supervised by the Reserve Bank of India	No regulatory organisation; lend at any rate
Interest Rate	Lower (e.g., 8.5% p.a.)	Much higher (e.g., 36–60% p.a.)
Borrowers	Mainly richer households	Mainly poor households
Impact	Cheaper credit; supports development	High cost; can lead to debt trap

Expanding formal sector credit is essential so that the poor are not forced to depend on expensive informal credit.

Source: Chapter 3 – Money and Credit, Formal Sector Credit in India

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Explanation

- Examiners expect **at least 3 clear points of distinction** for 3 marks — one point per mark.
- A **table format** is the clearest way to present distinctions and is widely accepted in CBSE board exams.
- Key contrast points: supervision (RBI vs. none), interest rate, type of lenders, and who benefits.
- Avoid writing long paragraphs — crisp, parallel comparisons score better.
- The concluding line (about expanding formal credit) adds value but keep it brief.

Q40. § TWO DIFFERENT CREDIT SITUATIONS § SUMMING UP **[1]**

Which one of the following is a formal source of credit ?

A Relative
B Trader
C Money lender
D Cooperative Society

Previously asked in: 2023 32/1/1 Q14

◆ **Money and Credit** Formal Sources of Credit

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Model Answer

D – Cooperative Society

Formal sources of credit include banks and cooperative societies, supervised by the Reserve Bank of India. Relatives, traders, and moneylenders are informal sources.

Source: *Money and Credit*, Formal Sector Credit in India

Explanation

Examiners look for the correct option with a brief justification. Remember: **formal sources** = banks + cooperatives (regulated by RBI); **informal sources** = moneylenders, traders, employers, relatives, friends. Trader (B) is explicitly listed as an informal lender in the textbook, so don't confuse it with a formal source.

Q41. § FORMAL SECTOR CREDIT IN INDIA § SUMMING UP **[4]**

> Loans from Co-operatives
>
> Besides banks, the other major source of cheap credit in rural areas are the co-operative societies. Members of a co-operative pool their resources for co-operation in certain areas. There are several types of co-operatives possible such as farmers co-operatives, weavers co-operatives, industrial workers co-operatives etc.
>
> Krishak Co-operative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the co-operative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.
>
> Krishak Co-operative provides loans for the purchase of agriculture equipments, loans for cultivation and agricultural trade, fishery loans, loans for constructions of houses and for variety of other expenses.

Read the following source and answer the questions that follow :

(34.1) Which sector includes credit facilities offered by Co-operative Societies ? [1]

(34.2) How do Self-Help Groups access external funding ? [1]

(34.3) Explain the functioning of Co-operative Societies. [2]

Previously asked in: 2025 32/6/1 Q34

◆ **Money and Credit** | Co-operative Societies as a Source of Rural Credit | Formal and Informal Sectors of Credit | Self-Help Groups (SHGs) and External Funding

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Model Answer

(34.1) Credit facilities offered by Co-operative Societies fall under the **informal sector** — wait, Co-operatives are classified under the **formal sector** of credit.

(34.2) Self-Help Groups pool savings of their members and use these savings as collateral to obtain loans from banks. The bank provides credit to the group, which is then distributed among members as needed.

(34.3) Co-operative Societies function by pooling resources of their members. Members deposit their savings with the co-operative. These deposits are used as collateral to obtain large loans from banks. The funds collected are then lent to members at relatively low interest rates for purposes such as purchase of agricultural equipment, cultivation, fishery, and house construction. Once loans are repaid, another round of lending begins.

Source: Money and Credit, Loans from Co-operatives

Explanation

- **(34.1)** Co-operatives are part of the **formal sector** (regulated, not informal). Don't confuse them with moneylenders.
- **(34.2)** The passage doesn't mention SHGs, so this answer draws from the broader chapter content on SHGs. Key point: SHGs use **pooled savings as collateral** for bank loans.
- **(34.3)** Follow the chain: member deposits → collateral → bank loan → lend to members → repayment → fresh lending. Mentioning examples of loan types (agriculture, housing) adds completeness. Examiners look for the **cycle of functioning**, not just a definition.

Q42. § FORMAL SECTOR CREDIT IN INDIA § SUMMING UP **[3]**

Distinguish between formal and informal sources of credit in India with example.

Previously asked in: 2025 32/5/1 Q26

◆ **Money and Credit** Formal vs Informal sources of credit

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Model Answer

Basis	Formal Sources	Informal Sources
Institutions	Banks, cooperatives	Moneylenders, traders, employers, relatives
Supervision	Regulated by RBI	No supervisory organisation
Interest Rate	Low (e.g., 8.5% p.a. for Arun)	Very high (e.g., 60% p.a. from moneylender)
Documentation	Requires collateral and documents	No collateral needed; personal basis

Formal sources charge lower interest and are supervised by the RBI, which ensures fair practices. Informal lenders can charge any rate and may use unfair means to recover loans, often leading borrowers into a debt trap.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India

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Explanation

- Examiners expect **at least 2–3 clear points of distinction** for 3 marks; a table format scores well and saves words.
- Always give **examples** (Arun's bank loan at 8.5% vs. Shyamal's moneylender at 60% p.a.) — the question explicitly asks for them.
- Key terms to include: **RBI supervision**, **collateral**, **interest rate**, **debt trap**.
- Don't write lengthy paragraphs; crisp contrasts backed by textbook examples are what examiners reward.

Q43. § Variety of Credit Arrangements **[5]**

Imagine that you are the Village Development Officer of a village. Explain the usefulness of formal sources of credit for the farmers.

Previously asked in: 2025 32/4/1 Q33(B)

◆ **Money and Credit** | Credit for Farmers and Rural Economy | Formal Sources of Credit

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Model Answer

As the Village Development Officer, I would highlight the following benefits of formal sources of credit (banks and cooperatives) for farmers:

1. **Low interest rates:** Banks charge 8.5% per annum (as seen with Arun), far less than the 36–60% charged by moneylenders or traders.
1. **Flexible repayment:** Bank loans can be repaid anytime within a fixed period (e.g., three years), reducing pressure on farmers.
1. **No forced selling of crops:** Unlike trader loans, bank loans do not compel farmers to sell their produce at low prices, ensuring better income.
1. **Additional facilities:** Banks offer services like loans against cold storage receipts, helping farmers store produce and sell at better prices.
1. **Supervised and fair:** The RBI regulates banks, ensuring no unfair practices, unlike informal lenders.
1. **Avoids debt trap:** Cheap credit prevents situations like Rama's, where high-interest informal loans lead to a spiralling debt trap.

Source: Chapter 3 — Formal Sector Credit in India; Example of a Village

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Explanation

- Examiners expect 5 distinct, relevant points for 5 marks — one point ≈ one mark.
- Always contrast formal vs. informal credit using textbook examples (Arun vs. Shyamal/Rama) to show you understand the chapter.
- Mention RBI supervision as a key feature of formal credit — it is directly stated in the chapter.
- Avoid writing a long essay; crisp, labelled points score better in board exams.

Q44. § TERMS OF CREDIT § SUMMING UP **[1]**

Read the following sources of loan carefully and choose the correct option related to formal sources of credit.

(i) Commercial Bank

(ii) Landlords

(iii) Government

(iv) Money Lender

(a) (i) and (iii) are correct.
(b) (ii) and (iv) are correct.
(c) (i) and (ii) are correct.
(d) (ii) and (iii) are correct.

Previously asked in: 2025 32/4/1 Q18

◆ **Money and Credit** Formal and informal sources of credit

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Model Answer

(a) (i) and (iii) are correct.

Commercial Banks and Government are formal sources of credit, supervised by the RBI. Landlords and moneylenders are informal sources.

Explanation

The textbook clearly states that formal sector loans include banks and cooperatives, supervised by the RBI. Government-run lending institutions also fall under the formal sector. Moneylenders and landlords are explicitly listed as informal lenders with no regulatory supervision.

Q45. § SUMMING UP **[5]**

Analyse the importance of credit in the economic development of the country.

Previously asked in: 2026 32/3/1 Q38(a)

◆ Money and Credit | Importance of Credit in Economic Development

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Model Answer

Importance of Credit in Economic Development:

1. **Meets production needs:** Credit helps producers like small manufacturers meet working capital needs — purchasing raw materials, hiring labour — enabling them to complete orders, earn profits, and expand output.
1. **Supports agriculture:** Farmers need crop loans for seeds, fertilisers, pesticides, and equipment. Since 3–4 months pass between sowing and harvest, credit bridges this gap and sustains agricultural production.
1. **Enables entrepreneurship:** Cheap and affordable credit allows people to set up small-scale industries, trade in goods, and start new enterprises, directly contributing to development.
1. **Risk of debt-trap:** In high-risk situations (e.g., crop failure), credit can push borrowers into a debt-trap, making them worse off. Hence, the *terms* of credit matter greatly.
1. **Need to expand formal credit:** Formal sector credit (banks, cooperatives) carries low interest; informal credit is costly. Expanding formal credit reduces dependence on moneylenders and ensures higher income remains with borrowers, boosting overall development.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India / Two Different Credit Situations

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Explanation

- Examiners expect both the **positive role** (production, agriculture, entrepreneurship) and the **negative aspect** (debt-trap) — covering both sides earns full marks.
- Always mention **formal vs. informal credit** distinction and why expanding formal credit matters.
- Use textbook examples (Salim, Swapna) as evidence — they show two contrasting outcomes of credit.
- Five points for a 5-mark question is ideal; keep each point concise (1–2 lines).

Q46. § SUMMING UP **[5]**

Differentiate between the formal and informal sources of credit.

Previously asked in: 2026 32/2/1 Q38(a)

◆ Money and Credit | Formal vs Informal sources of credit

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Model Answer

Formal vs Informal Sources of Credit

Basis	Formal Sources	Informal Sources
Examples	Banks, cooperative societies	Moneylenders, traders, employers, relatives, friends
Supervision	Regulated by RBI, which monitors interest rates, lending practices, and cash balance	No regulatory body; lenders charge any interest rate they wish
Interest Rate	Low (e.g., 8.5% per annum for Arun's bank loan)	Very high (e.g., 36–60% per annum charged by moneylenders/traders in Sonpur)
Collateral	Usually required; poor lack collateral and are often excluded	Not always required; moneylenders know borrowers personally
Borrowers served	Mostly richer households (83% of rich urban households use formal credit)	Mostly poor households (54% of poor urban households depend on informal credit)
Risk to borrower	Lower; terms are transparent	Higher; unfair means may be used for recovery, leading to debt traps

It is essential to expand formal credit so that the poor depend less on costly informal sources.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India; Variety of Credit Arrangements

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Explanation

- Examiners expect a **comparison format** — a table earns full marks quickly and is preferred for "differentiate" questions.
- Mention **RBI supervision** as the key distinguishing feature for formal sources.
- Use **specific examples from the chapter** (Arun's bank loan rate vs Shyamal's trader loan) to show application — examiners reward this.
- The concluding line on expanding formal credit links to the chapter's core message and shows conceptual understanding.
- 5 marks → aim for 5 clear points of difference; a table with 5–6 rows covers this perfectly.

Q47. § SUMMING UP **[5]**

How does the credit vary substantially between formal and informal lenders? Explain with examples.

Previously asked in: 2022 32/3/1 Q10 (b)

◆ **Money and Credit** | Formal vs Informal sources of credit | Terms of credit

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Model Answer

Credit terms vary substantially between formal and informal lenders in the following ways:

1. Interest Rates: Formal lenders (banks, cooperatives) charge low interest rates — e.g., Arun gets a bank loan at 8.5% per annum. Informal lenders charge very high rates — e.g., Shyamal paid 60% per annum to a moneylender and Rama's employer charges 5% per month.

2. Supervision: The RBI supervises formal lenders and monitors their lending practices. No organisation supervises informal lenders; they can charge any rate and use unfair means to recover loans.

3. Collateral and Documentation: Formal loans require proper documents and collateral. Informal lenders like moneylenders often lend without collateral since they know borrowers personally.

4. Access: Rich households get 83% of their loans from formal sources, while 54% of poor urban households' loans come from informal sources.

5. Impact: Formal credit is cheaper and helps increase income. Informal credit, due to high cost, can push borrowers into a debt trap — as seen in Swapna's case.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India / Variety of Credit Arrangements

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Explanation

- Examiners look for a **clear comparison** across parameters: interest rate, supervision, collateral, access, and impact.
- Use **examples from the textbook** (Arun, Shyamal, Rama, Swapna) — this earns marks and shows you've read the chapter.
- Mentioning **RBI supervision** vs. **no supervision of informal sector** is a key point most students miss.
- The **Graph 2 statistic** (83% vs. 54%) adds a factual punch — worth including for a 5-mark answer.
- Do NOT write vague generalisations; stick to specific contrasts backed by examples.

Q48. § TERMS OF CREDIT § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[5]**

What is a collateral ? Why is it a main reason to prevent the poor getting a loan from banks ? Explain.

Previously asked in: 2023 32/5/1 Q33(b)

◆ **Money and Credit** Barriers to formal credit for the poor Collateral and its role in formal credit

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Model Answer

Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, or bank deposits) and uses as a guarantee to the lender until the loan is repaid. If the borrower fails to repay, the lender has the right to sell the collateral to recover the money.

Why it prevents the poor from getting bank loans:

1. **Lack of assets:** Poor people usually do not own property like land or buildings to offer as collateral. Without it, banks refuse to sanction loans.
2. **Strict bank requirements:** Banks require proper documents and collateral, unlike informal lenders who know borrowers personally and lend without collateral.
3. **Informal lenders as only option:** Since poor people cannot fulfil collateral requirements, they are forced to depend on moneylenders who charge very high interest rates, worsening their condition.
4. **SHG solution:** Self-Help Groups help the poor overcome this problem by pooling savings, enabling banks to lend to them collectively even without individual collateral.

Source: Chapter 3 — Money and Credit, Terms of Credit & Self-Help Groups for the Poor

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Explanation

- The examiner expects a **clear definition** of collateral (1 mark), followed by **2–3 developed points** explaining why its absence hurts the poor (3–4 marks).
- Always link the problem to the **formal vs. informal credit** contrast — banks need collateral, moneylenders do not but charge high interest.
- Mentioning SHGs as a **solution** shows complete understanding and fetches full marks.
- Avoid writing in essay form; use short paragraphs or numbered points for clarity in board exams.

Q49. § TWO DIFFERENT CREDIT SITUATIONS § SUMMING UP **[5]**

How does credit play a positive and a negative role ? Explain with examples.

Previously asked in: 2023 32/5/1 Q33(a)

◆ **Money and Credit** Positive and Negative Role of Credit

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Model Answer

Positive Role of Credit:
Credit plays a vital positive role when it helps a borrower increase earnings. For example, Salim, a shoe manufacturer, took a loan to purchase raw materials and hire workers to complete a bulk order. He delivered the order on time, earned a good profit, and repaid the loan easily. Here, credit met his working capital needs and improved his income.

Negative Role of Credit:
Credit can push a borrower into a debt trap when risks are high. For example, Swapna, a small farmer, borrowed from a moneylender for cultivation. Her crop failed due to pests. She could not repay the loan; interest kept accumulating. Next year's earnings were still insufficient. Finally, she had to sell part of her land to repay the debt, leaving her worse off than before.

Conclusion: Whether credit is useful depends on the risks involved and availability of support in case of loss.

Source: Chapter 3 – Money and Credit, "Two Different Credit Situations"

Explanation

- Examiners expect **one clear positive example** (Salim) and **one clear negative example** (Swapna) — both are directly from the textbook.
- Key terms to use: **working capital**, **debt trap**, **repayment**.
- The conclusion about "risks in the situation" is from the textbook and earns the final mark.
- For 5 marks: ~2 marks for positive role + example, ~2 marks for negative role + example, ~1 mark for conclusion/linking statement.

Q50. § SUMMING UP **[5]**

(B) "Cheap and affordable credit is crucial for the country's development." Justify the statement.

Previously asked in: 2023 32/4/1 Q33 (B)

◆ **Money and Credit** Importance of Cheap and Affordable Credit for Development

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Model Answer

"Cheap and affordable credit is crucial for the country's development" — this statement can be justified with the following points:

1. **Supports agriculture:** Small farmers need credit to buy seeds, fertilisers and equipment. Cheap credit allows them to invest in cultivation and increase their income.
1. **Promotes business and industry:** People can borrow to set up small-scale industries, trade in goods, or expand existing businesses, contributing to economic growth.
1. **Reduces debt burden:** Informal lenders charge very high interest rates (e.g., 60% per annum), pushing borrowers into debt traps. Cheap formal credit frees up income for productive use.
1. **Equal opportunity:** When formal credit reaches the poor, it reduces their dependence on exploitative moneylenders and enables them to improve their living standards.
1. **Overall development:** Higher incomes generated through affordable credit increase demand, production, and employment — all essential for national development.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India

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Explanation

Examiners expect 4–5 distinct, well-labelled points covering: agriculture, business/industry, debt trap avoidance, equity (poor vs. rich access), and overall development. The key textbook line — *"cheap and affordable credit is crucial for the country's development"* — should be supported using examples from the chapter (Shyamal, Rama, cooperatives). Avoid vague statements; each point must show a clear link between cheap credit and development outcomes.

Q51. § TWO DIFFERENT CREDIT SITUATIONS § TERMS OF CREDIT § Variety of Credit Arrangements **[2]**

A debt trap pushes the borrower in a situation from which recovery is quite difficult. Examine this statement.

Previously asked in: 2023 32/2/1 Q24

◆ **Money and Credit** | Debt Trap and Its Consequences for Borrowers | Terms of Credit and Informal Sources of Credit

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Model Answer

A debt trap occurs when a borrower is unable to repay a loan and is forced to take fresh loans to cover old ones. For example, Swapna's crop failed, making repayment impossible. Her debt grew each year and she had to sell part of her land to repay it, leaving her worse off than before.

Source: Chapter 3 — Two Different Credit Situations

Explanation

- The question is directly based on Swapna's example from the textbook. Always cite a specific example to support the statement.
- Key points examiners look for: (1) inability to repay leading to fresh loans, (2) debt growing over time, (3) asset loss (selling land), (4) borrower ends up worse off.
- Do **not** write a long essay — 2 marks = 2 key points with one example is enough.

Q52. § FORMAL SECTOR CREDIT IN INDIA § ADDITIONAL PROJECT / ACTIVITY **[1]**

Which one of the following categories of urban households take the highest percentage of loan from the formal sector ?

(a) Poor households
(b) Households with few assets
(c) Well-off households
(d) Rich households

Previously asked in: 2023 32/2/1 Q19

◆ **Money and Credit** | Formal and Informal Sources of Credit – Urban Household Borrowing Patterns

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Model Answer

(c) Well-off households

Wait — according to the textbook (Graph 2), **rich households** take 83% of their loans from the formal sector, the highest among all groups.

Answer: (d) Rich households

Explanation

Graph 2 in Chapter 3 clearly states that 83% of loans taken by **rich urban households** are from the formal sector — the highest percentage among all four groups (poor, few assets, well-off, rich). Students often confuse "well-off" with "rich," but the textbook distinguishes them as separate categories, with rich households having the greatest formal sector share.

Q53. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[4]**

> Loans from Cooperatives
> Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives, industrial workers cooperatives, etc. Krishak Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.
> Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.

Read the given source and answer the questions that follow :

(36.1) How do 'Krishak Cooperatives' secure funds for providing loans to their members ? [1]

(36.2) What are the different types of loans that 'Krishak Cooperatives' offer to their members ? [1]

(36.3) Why are such cooperatives desirable in the rural areas ? [2]

Previously asked in: 2024 32/5/1 Q36

◆ **Money and Credit** | Cooperative Societies as a Source of Rural Credit | Formal vs Informal Sources of Credit in Rural Areas

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Model Answer

(36.1) Krishak Cooperative accepts deposits from its members and uses these deposits as collateral to obtain a large loan from the bank. These funds are then used to provide loans to members.

(36.2) Krishak Cooperative offers loans for:

- Purchase of agricultural implements
- Cultivation and agricultural trade
- Fishery loans
- Construction of houses and other various expenses

(36.3) Cooperatives are desirable in rural areas because they provide **cheap credit** to farmers and rural people, reducing their dependence on moneylenders who charge high interest rates. Members pool their resources, making credit accessible to those who lack individual collateral. This helps break the cycle of debt and supports rural development and self-reliance.

Source: Chapter – Money and Credit, Section – Loans from Cooperatives

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Explanation

- **(36.1)** The passage directly states the two-step process: member deposits → used as collateral → bank loan. Mention both steps.
- **(36.2)** Simply list the four types from the passage. No elaboration needed for 1 mark.
- **(36.3)** For 2 marks, examiners expect two clear points: (i) cheap/affordable credit, and (ii) reduced dependence on informal/exploitative sources like moneylenders. Linking it to pooling of resources shows understanding of the cooperative model.

Q54. § TWO DIFFERENT CREDIT SITUATIONS | § Variety of Credit Arrangements | § SUMMING UP **[1]**

Select the formal sources of credit from the given sources and choose the correct option.

I. Bank

II. Moneylender

III. Cooperatives

IV. Businessman

(A) Only I and II
(B) Only II and III
(C) Only I and III
(D) Only I and IV

Previously asked in: 2024 32/5/1 Q20

◆ **Money and Credit** | Formal and informal sources of credit

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Model Answer

(C) Only I and III

Banks and Cooperatives are formal sources of credit, supervised by the RBI. Moneylenders and businessmen are informal sources.

Explanation

As per the textbook, formal sector loans include **banks** and **cooperatives**. Informal lenders include moneylenders, traders, employers, relatives, and friends. The key distinction is RBI supervision — formal lenders are regulated; informal ones are not. Eliminate II (moneylender) and IV (businessman) as both are informal sources.

Q55. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[1]**

Two statements are given below. They are Assertion (A) and Reason (R). Read both the statements and choose the correct option.

Assertion (A) : Rural poor families are still dependent on informal sources of credit.

Reason (R) : For obtaining loan from banks, collateral and special documents are required.

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).
(B) Both (A) and (R) are true, but (R) is not the correct explanation of (A).
(C) (A) is true, but (R) is false.
(D) (A) is false, but (R) is true.

Previously asked in: 2024 32/5/1 Q17

◆ **Money and Credit** | Collateral and formal credit requirements | Informal sources of credit

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Model Answer

(A) Both (A) and (R) are true and (R) is the correct explanation of (A).

Rural poor lack collateral and proper documents required for bank loans, so they are forced to depend on informal sources of credit.

Explanation

The passage from "Self-Help Groups for the Poor" directly states: "bank loans require proper documents and collateral. Absence of collateral is one of the major reasons which prevents the poor from getting bank loans" — this is exactly why they depend on informal sources. So (R) correctly and directly explains (A), making option (A) the right choice.

Q56. § Variety of Credit Arrangements **[1]**

In one of the small villages, a farmer borrows money from the village moneylender at a high monthly interest rate but is not able to repay it back. Next, he borrows it from a bank at a lower interest rate. Gradually he earns and pays back the loan to the moneylender and the bank.
Which of the following best describes the role of the bank in this credit situation ?

(A) The bank acts as a cooperative lender.
(B) The bank facilitates a debt-trap situation.
(C) The bank ensures a fair exchange of goods.
(D) The bank saves the farmer from debt-trap.

Previously asked in: 2024 32/5/1 Q15

◆ **Money and Credit** | Debt trap and credit relief through formal sources | Role of formal credit (banks) vs informal credit (moneylenders)

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Model Answer

(D) The bank saves the farmer from debt-trap.

The bank provides credit at a lower interest rate, helping the farmer repay the high-interest moneylender loan and gradually become debt-free.

Source: Money and Credit, Formal Sector Credit in India

Explanation

The key concept here is **debt-trap** — when high interest rates make repayment impossible, trapping the borrower in increasing debt. The bank (formal sector) offers lower interest rates, enabling the farmer to repay and escape this trap. Options A and C are irrelevant; B is the opposite of what happens. Examiners expect you to connect "lower interest rate → repayment possible → no debt-trap."

Q57. § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR § SUMMING UP **[4]**

> Loans from Cooperatives
> Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives and industrial workers cooperatives, etc. Krishak Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.
> Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.

Read the given source and answer the questions that follow :

(36.1) 'Cooperative society' is an example of which source of 'credit' ? [1]

(36.2) Explain the contribution of Cooperative Societies in rural development. [1]

(36.3) Mention any two sources of capital for Self-Help Groups. [2]

Previously asked in: 2024 32/4/1 Q36

◆ **Money and Credit** | Cooperative Societies and Rural Credit | Formal and informal sources of credit | Self-Help Groups (SHGs) – Sources of Capital

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Model Answer

(36.1) Cooperative society is an example of a **formal (institutional) source of credit**.

(36.2) Cooperative societies contribute to rural development by providing cheap loans to farmers for purchasing agricultural implements, cultivation, fishery, house construction, and other expenses, thereby reducing dependence on moneylenders.

(36.3) Two sources of capital for Self-Help Groups:

1. **Members' savings** — members regularly save small amounts and deposit them with the group.
2. **Loans from banks** — after establishing a good track record of savings and repayment, SHGs obtain loans from banks at reasonable interest rates.

Source: Chapter 3 – Money and Credit, Section: Cooperatives and Self-Help Groups

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Explanation

- **(36.1)** Cooperatives fall under **formal** credit sources (along with banks). Do not write "informal."
- **(36.2)** Stick to the passage — mention cheap credit and the range of loans (agricultural, fishery, housing). One well-framed sentence is enough for 1 mark.
- **(36.3)** SHGs are not mentioned in the passage, so this comes from the broader chapter knowledge. Examiners expect two distinct points: *members' own savings* and *bank loans*. Some answers also accept microfinance institutions — either is valid.

Q58. § TWO DIFFERENT CREDIT SITUATIONS **[1]**

Read the following situation regarding credit and identify the positive impact of credit.
Salim obtains credit to meet the working capital needs of production. The credit helps him to meet the ongoing expenses and complete production on time.

(A) The burden of credit will increase on Salim.
(B) Salim's income will increase.
(C) The production will decrease.
(D) Salim may get stuck in a debt trap.

Previously asked in: 2024 32/4/1 Q15

◆ **Money and Credit** Positive impact of credit / Credit for working capital needs

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Model Answer

(B) Salim's income will increase.

Credit helped Salim meet working capital needs, complete production on time, deliver the order, and make a good profit — thus increasing his income.

Source: Money and Credit, Chapter 3 (Festival Season example)

Explanation

The passage explicitly states: "Credit helps him to meet the ongoing expenses of production, complete production on time, and thereby **increase his earnings**." Options A, C, and D describe negative outcomes of credit (debt trap, burden, decreased production), which apply to Swapna's case, not Salim's. Examiners expect you to link "positive impact" directly to increased earnings/income.

Q59. § Variety of Credit Arrangements § FORMAL SECTOR CREDIT IN INDIA § SUMMING UP **[3]**

How can the formal sector loans be made beneficial for poor farmers and workers ? Explain.

Previously asked in: 2024 32/3/1 Q28

◆ **Money and Credit** Cheap and Affordable Credit for Rural Poor Formal Sector Loans and Benefits for Poor Farmers and Workers Formal vs Informal sources of credit

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Model Answer

Formal sector loans can be made beneficial for poor farmers and workers in the following ways:

1. **Expand bank and cooperative credit** in rural areas so that dependence on costly informal lenders (moneylenders, employers) is reduced.
2. **Equal distribution of formal credit** — at present, rich households get most formal loans; banks must ensure poor farmers and labourers also receive cheap credit.
3. **Self-Help Groups (SHGs)** — organising poor women into SHGs helps them overcome the problem of lack of collateral and get timely loans at reasonable interest rates.
4. **RBI supervision** ensures banks lend not just to profit-making businesses but also to small cultivators and small borrowers at affordable rates.

Cheap and affordable credit is crucial for the country's development.

Source: Chapter 3 — Money and Credit, Formal Sector Credit in India / Self-Help Groups for the Poor

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Explanation

- Examiners expect 3–4 distinct points for a 3-mark answer.
- Key terms to use: **collateral**, **SHGs**, **RBI supervision**, **cooperative societies**, **cheap/affordable credit**.
- Avoid writing a long essay; each point should be crisp and distinct.
- The question asks "how," so every point must suggest a concrete measure, not just describe a problem.

Q60. § SUMMING UP **[3]**

Examine the significance of credit in economic development of the country.

Previously asked in: 2024 32/2/1 Q28

◆ **Money and Credit** Role and Significance of Credit in Economic Development

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Model Answer

Credit plays a significant role in economic development in the following ways:

1. **Increases production and earnings:** Credit helps producers like manufacturers meet working capital needs, complete production on time, and increase their earnings (e.g., Salim the shoe manufacturer).

1. **Supports agriculture:** Farmers take crop loans at the beginning of the season to buy seeds, fertilisers, and equipment, and repay after harvest.

1. **Promotes business and industry:** Cheap and affordable credit enables people to set up small-scale industries, trade in goods, and start new enterprises, thereby boosting overall development.

However, credit can also push borrowers into a **debt trap** if crop failure or high-risk situations arise (e.g., Swapna). Hence, expanding **formal sector credit** at reasonable rates is crucial for development.

Source: Chapter 3 – Money and Credit, "Two Different Credit Situations" and "Formal Sector Credit in India"

Explanation

- Examiners expect **both sides** of credit: its positive role AND its risks.
- Mention at least **2–3 specific points** with a textbook example (Salim/Swapna) to score full marks.
- Key terms to use: *working capital, debt trap, formal credit, affordable credit*.
- Avoid padding — keep it within 3 tight points for a 3-mark question.

Q61. § Variety of Credit Arrangements **[4]**

> Arun supervises the work of one farm labourer. Arun has seven acres of land. He is one of the few persons in Sonpur to receive bank loan for cultivation. The interest rate on the loan is 8.5 per cent per annum, and can be repaid anytime in the next three years. Arun plans to repay the loan after harvest by selling a part of the crop. He then intends to store the rest of the potatoes in a cold storage and 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.

Read the given source and answer the questions that follow :

36.1 Under which source does Arun's loan come ? [1]

36.2 Mention one important term of credit for taking a loan from the bank. [1]

36.3 How is Arun's loan beneficial ? Explain any two reasons. [2]

Previously asked in: 2025 32/2/1 Q36

◆ **Money and Credit** | Benefits of formal credit / bank loans | Formal sources of credit (banks) | Terms of credit

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Model Answer

36.1 Arun's loan comes from a **formal source of credit** (specifically, a bank).

36.2 One important term of credit is the **interest rate** — Arun pays 8.5% per annum on the loan.

36.3 Arun's bank loan is beneficial in two ways:

1. **Low and fixed interest rate:** The interest rate is only 8.5% per annum, which is much lower than loans from informal sources like moneylenders, reducing the burden on the farmer.
1. **Flexible repayment and additional credit facility:** The loan can be repaid anytime within three years, and Arun can also apply for a fresh loan against the cold storage receipt, helping him manage his income better after harvest.

Source: Money and Credit, Formal Sector Credit

Explanation

- **36.1** Examiners expect the term "formal source of credit" — bank is the key identifier.
- **36.2** Any one valid term (interest rate, collateral, repayment period) scores the mark; picking interest rate is easiest here as it is directly stated.
- **36.3** Both points must be distinct and linked to the passage. Low interest rate and flexible repayment + cold storage loan facility are the two most passage-supported reasons. Avoid generic statements — tie each point back to Arun's situation.

Q62. § FORMAL SECTOR CREDIT IN INDIA § SUMMING UP **[4]**

> Loans From Cooperatives
> Besides banks, the other major source of cheap credit in rural areas are the cooperative societies (or cooperatives). Members of a cooperative pool their resources for cooperation in certain areas. There are several types of cooperatives possible such as farmers cooperatives, weavers cooperatives, industrial workers cooperatives, etc. Krishak Cooperative functions in a village not very far away from Sonpur. It has 2300 farmers as members. It accepts deposits from its members. With these deposits as collateral, the Cooperative has obtained a large loan from the bank. These funds are used to provide loans to members. Once these loans are repaid, another round of lending can take place.
> Krishak Cooperative provides loans for the purchase of agricultural implements, loans for cultivation and agricultural trade, fishery loans, loans for construction of houses and for a variety of other expenses.

Read the given source and answer the questions that follow :

(36.1) Cooperative societies come under which source of credit ? [1]

(36.2) Mention any two sources of capital of cooperative societies. [1]

(36.3) Explain the role of cooperative societies in increasing the income of farmers. [2]

Previously asked in: 2025 32/1/1 Q36

◆ **Money and Credit** | Cooperative Societies as a Source of Credit | Role of Cooperative Societies in Rural Credit and Farmer Income | Sources of Capital of Cooperative Societies

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Model Answer

(36.1) Cooperative societies come under the **formal source of credit**.

(36.2) Two sources of capital of cooperative societies:

1. Deposits from members
2. Loans obtained from banks (using member deposits as collateral)

(36.3) Cooperative societies play an important role in increasing farmers' income in the following ways:

- They provide **cheap credit** for the purchase of agricultural implements, helping farmers improve productivity.
- They give loans for **cultivation and agricultural trade**, enabling farmers to invest in their crops.
- They also provide **fishery loans and housing loans**, reducing dependence on moneylenders who charge high interest rates.
- By offering affordable credit, cooperatives free farmers from debt traps, allowing them to retain more of their income.

Source: Money and Credit, Loans from Cooperatives

Explanation

- **(36.1):** Cooperatives are formal sector because they are regulated and follow prescribed lending norms. One word/phrase is enough for 1 mark.
- **(36.2):** Directly from the passage — member deposits + bank loans. Do not go outside the passage.
- **(36.3):** For 2 marks, make 2–3 clear points. The key idea is cheap credit → better investment in farming → higher income + freedom from exploitative moneylenders. Examiners look for specific examples (implements, cultivation, trade) drawn from the passage.

Q63. § Variety of Credit Arrangements § FORMAL SECTOR CREDIT IN INDIA § SELF-HELP GROUPS FOR THE POOR **[1]**

Why does it become difficult for farmers in rural areas to take loans from government banks ? Read the following reasons and choose the most appropriate option :

I. Lack of collateral

II. Complicated procedure

III. Higher cost of borrowing

IV. Lack of awareness

(A) Only I, II and III are correct.
(B) Only II, III and IV are correct.
(C) Only I, II and IV are correct.
(D) Only I, III and IV are correct.

Previously asked in: 2025 32/1/1 Q18

◆ **Money and Credit** Barriers to formal credit access for rural farmers Collateral as a requirement for formal loans Formal vs Informal sources of credit

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Model Answer

The correct answer is **(C) Only I, II and IV are correct.**

Small farmers lack collateral (assets as guarantee), face complicated documentation procedures, and lack awareness about formal banking. Higher cost of borrowing is a feature of **informal** sources, not government banks.

Explanation

The passage states that "absence of collateral is one of the major reasons which prevents the poor from getting bank loans" and that "bank loans require proper documents" (complicated procedure). Lack of awareness is also a barrier for rural poor. Higher cost of borrowing applies to moneylenders/informal lenders, not government/formal banks — so Statement III is incorrect in this context. Examiners expect students to distinguish between problems of accessing **formal** credit vs. characteristics of **informal** credit.

Q64. § SUMMING UP **[3]**

Differentiate between formal and informal sources of credit.

Previously asked in: 2026 32/1/1 Q36; 2022 32/1/1 Q6 (a) — **2×**

◆ **Money and Credit** Formal vs Informal sources of credit

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Model Answer

Basis	Formal Sources	Informal Sources
Examples	Banks, cooperative societies	Moneylenders, traders, employers, relatives
Supervision	Supervised by Reserve Bank of India (RBI)	No supervising organisation
Interest Rate	Lower (e.g., 8.5% per annum)	Much higher (e.g., 36–60% per annum)
Borrowers	Mostly richer households	Mostly poor households

Formal sources follow guidelines set by the RBI, while informal lenders can charge any interest rate and may use unfair means to recover money.

Source: Chapter 3 – Money and Credit, Formal Sector Credit in India

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Explanation

- Examiners expect a **comparison format** — either a table or paired points. A table scores well here.
- Four differences are ideal for 3 marks (one point may carry ½ mark each, or the table as a whole scores).
- Key terms to include: **RBI supervision**, **interest rate**, **examples of each**, and **who borrows from whom**.
- Avoid writing long paragraphs — crisp distinctions impress examiners.

Q65. § Variety of Credit Arrangements **[1]**

Read the following case and choose the correct option :
Swapna owns a small farm in her village. She wants to take loan to meet the expense of cultivation.
From which of the following sources should Swapna take the loan ?

(A) Reserve Bank of India
(B) Nearest nationalised bank
(C) Moneylender of the village
(D) Agricultural trader

Previously asked in: 2026 32/1/1 Q31

◆ **Money and Credit** | Formal and informal sources of credit

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Model Answer

(B) Nearest nationalised bank

Nationalised banks offer formal credit at low interest rates (around 8–9% p.a.) with flexible repayment, unlike moneylenders or traders who charge exploitative rates and impose unfavourable conditions.

Source: Money and Credit, Two Different Credit Situations / Variety of Credit Arrangements

Explanation

- RBI does **not** lend directly to individuals — it regulates banks.
- Moneylenders charge up to 60% p.a. and traders charge 36% p.a. — both are informal, exploitative sources shown in the passage to push small farmers into debt traps (Swapna's case).
- The passage clearly shows Arun (medium farmer) benefits from a bank loan at 8.5% p.a. — the best option for Swapna too.
- Examiner expects students to identify the **formal credit source** as the correct answer and avoid informal sources.

Q66. § Variety of Credit Arrangements **[1]**

Read the given case and choose the correct option :

Swapna, a small farmer grows groundnut on her three acres of land. She takes a loan from the moneylender to meet the expenses of cultivation but midway due to flood, crop fails and her debt increased. Again she has to take loan to manage crops.

Suggest Swapna, which of the following sources of loan would be suitable for her.

(A) Friends
(B) Relatives
(C) Moneylenders
(D) Banks

Previously asked in: 2026 32/4/1 Q31

◆ **Money and Credit** | Debt-trap and terms of credit | Formal and informal sources of credit

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Model Answer

(D) Banks

Banks are formal sources of credit that offer loans at low interest rates, which would help Swapna avoid the debt trap caused by high-interest moneylender loans.

Source: Money and Credit, Formal Sector Credit in India

Explanation

The passage clearly states that informal lenders like moneylenders charge very high interest rates, leading to debt traps (as seen in Rama's case). Formal sources like banks charge much lower rates (e.g., 8.5% p.a. for Arun vs. 60% p.a. from moneylenders). Friends and relatives are informal and unreliable for cultivation loans. Banks are the best option for Swapna to break the cycle of debt.

Q67. § NOTES FOR THE TEACHER § LOAN ACTIVITIES OF BANKS § FORMAL SECTOR CREDIT IN INDIA **[3]**

"Reserve Bank of India plays a crucial role in regulating the Indian banks." Justify the statement.

Previously asked in: 2025 32/3/1 Q28

◆ **Money and Credit** | Credit regulation and banking supervision by RBI | Role of Reserve Bank of India in regulating banks

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Model Answer

The Reserve Bank of India (RBI) plays a crucial role in regulating Indian banks in the following ways:

1. **Monitors cash balance:** RBI ensures that banks maintain a minimum cash balance out of the deposits they receive.
1. **Directs lending:** RBI sees that banks give loans not just to profit-making businesses but also to small cultivators, small-scale industries, and small borrowers.
1. **Collects information:** Periodically, banks must submit information to the RBI on how much they are lending, to whom, and at what interest rate.

This supervision ensures that formal credit is distributed fairly and the banking system functions smoothly.

Source: Money and Credit, Formal Sector Credit in India

Explanation

- The examiner expects **three distinct points** for 3 marks — one point per mark.
- Use the exact RBI functions mentioned in the textbook: monitoring cash balance, directing credit to priority sectors, and collecting periodic information.
- Avoid vague statements like "RBI controls banks" without elaboration — each point must be specific.
- A brief concluding line adds neatness but is not compulsory.

Q68. **[1]**

Read the image of the cheque. Identify the cheque number from the given options :

(A) 362255
(B) 110002078
(C) 000313
(D) 16137926023

Previously asked in: 2024 32/3/1 Q18

◆ **Money and Credit** | Reading and Identifying Parts of a Cheque

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Model Answer

(A) 362255

The cheque number is **362255**. On a cheque, the cheque number is the 6-digit number printed on the left side of the MICR band at the bottom.

Explanation

On any standard bank cheque, there are multiple numeric codes — cheque number (6 digits), MICR code/bank branch code, and account number. The cheque number is always the **first 6-digit code** appearing on the bottom-left of the cheque in the MICR band. Students should not confuse it with the account number (110002078) or MICR/IFSC related codes. Option A (362255) is the correct cheque number.