

CBSE CLASS X
Social Science (087)

QUESTION PAPER
AI-generated question paper

Code: HMJGC5

Questions: 20

Maximum Marks: 38

Generated: 2026-06-26 09:44

SELECTIONS USED

Subject	Social Science
Lessons	3 Money and Credit
Level of understanding	Initial understanding
Question selection	Curated chapter coverage (~3 questions per section)
Model	claude-sonnet-4-6

Composition — Difficulty: 8 straightforward · 12 medium | Types: 10 Short · 6 Very short · 4 MCQ

Q1. straightforward initial-understanding § NOTES FOR THE TEACHER [1]

What constitutes the stock of money held by the public in an economy?

◆ Money and Credit

Q2. medium initial-understanding § NOTES FOR THE TEACHER [2]

What is demonetisation? State one reason why the Indian government encouraged digital transactions following the demonetisation of 2016.

◆ Money and Credit

Q3. medium initial-understanding § MONEY AS A MEDIUM OF EXCHANGE [3]

What is 'double coincidence of wants', and why is it a problem in a barter system but not in a money-based economy?

◆ Money and Credit

Q4. straightforward initial-understanding § MODERN FORMS OF MONEY [1]

Why is modern currency — paper notes and coins — accepted as a medium of exchange even though it is not made of precious metals and has no use of its own?

◆ Money and Credit

Q5. medium initial-understanding § MODERN FORMS OF MONEY [3]

What are demand deposits? Why are they considered equivalent to currency as a medium of exchange?

◆ Money and Credit

Q6. medium initial-understanding § MODERN FORMS OF MONEY [1]

A shoe manufacturer needs to pay his leather supplier but does not want to use cash. He writes a cheque instead. Which of the following correctly describes what happens next?

(A) The cheque amount is immediately withdrawn as cash from the shoe manufacturer's account and handed to the leather supplier.

(B) The leather supplier deposits the cheque in his own bank account, and the amount is transferred from the shoe manufacturer's account to the leather supplier's account.

(C) The cheque is first verified by the Reserve Bank of India before any transfer between the two accounts takes place.

(D) The shoe manufacturer's bank directly credits the leather supplier's account only if both hold accounts in the same bank.

A The bank gives the leather supplier cash equal to the cheque amount immediately from its vault.

B The leather supplier deposits the cheque in his own bank account, and the amount is transferred from the shoe manufacturer's account to the leather supplier's account.

C The cheque is sent to the Reserve Bank of India, which then prints new currency and hands it to the leather supplier.

D The shoe manufacturer's account is frozen until the leather supplier presents the cheque in person at the shoe manufacturer's bank.

◆ Money and Credit

Q7. straightforward initial-understanding § LOAN ACTIVITIES OF BANKS [1]

Banks do not keep all the deposits they receive as cash. Why are they still able to meet the withdrawal demands of their depositors on any given day?

◆ Money and Credit

Q8. straightforward initial-understanding § TWO DIFFERENT CREDIT SITUATIONS [1]

What is a 'debt trap'?

◆ Money and Credit

Q9. straightforward initial-understanding § TWO DIFFERENT CREDIT SITUATIONS [1]

Why do farmers need to take loans at the beginning of the crop season?

◆ Money and Credit

Q10. medium initial-understanding § TERMS OF CREDIT [3]

What is collateral, and why do lenders require it when giving a loan?

◆ Money and Credit

Q11. straightforward initial-understanding § Variety of Credit Arrangements [1]

What is the main reason most farmers and labourers in a village cannot access bank loans for cultivation?

◆ Money and Credit

Q12. medium initial-understanding § Variety of Credit Arrangements [3]

How do cooperative societies help farmers and rural households meet their credit needs?

◆ Money and Credit

Q13. medium initial-understanding § Variety of Credit Arrangements [1]

A farm labourer borrows repeatedly from her employer-landlord to cover daily expenses and repays by working for him. Which of the following best explains why this arrangement traps her in a cycle of debt?

- (A) She prefers to borrow from the landlord rather than from a cooperative society.
- (B) The high interest rate means each new loan is taken before the previous one is fully repaid, so the debt keeps growing.
- (C) She spends her earnings on things she does not need instead of repaying the loan.
- (D) The bank refuses to lend money to farm labourers.

A The landlord refuses to let her work on other farms, leaving her with no income.

B The high interest rate means each new loan is taken before the previous one is fully repaid, so the debt keeps growing.

C She spends her earnings on things she does not need instead of repaying the loan.

D The cooperative society has refused to admit her as a member.

◆ Money and Credit

Q14. straightforward initial-understanding § FORMAL SECTOR CREDIT IN INDIA [1]

Which of the following is an informal source of credit?

- (A) Commercial bank
- (B) Cooperative society
- (C) Moneylender
- (D) Reserve Bank of India

A Commercial bank

B Cooperative society

C Moneylender

D Reserve Bank of India

◆ Money and Credit

Q15. medium initial-understanding § FORMAL SECTOR CREDIT IN INDIA [3]

Poor rural households depend far more on informal credit than rich households do. Why does this gap exist?

◆ Money and Credit

Q16. medium initial-understanding § SELF-HELP GROUPS FOR THE POOR [3]

Why are the rural poor, especially women, often unable to obtain loans directly from formal sources of credit? How do Self Help Groups (SHGs) address this problem?

◆ Money and Credit

Q17. straightforward initial-understanding § SELF-HELP GROUPS FOR THE POOR [1]

In a Self Help Group, who makes the key decisions about loans – the bank, an NGO, or the group members themselves?

A The bank that sanctions the loan

B The group members themselves

C A government-appointed NGO

D The local moneylender

◆ Money and Credit

Q18. medium initial-understanding § SELF-HELP GROUPS FOR THE POOR [2]

Apart from providing credit, mention any two other benefits that Self Help Groups offer to their members.

◆ Money and Credit

Q19. medium initial-understanding § SUMMING UP [3]

Why is formal sector credit considered more beneficial for borrowers compared to informal sector credit in India?

◆ Money and Credit

Q20. medium initial-understanding § ADDITIONAL PROJECT / ACTIVITY [3]

Ramesh works as a daily-wage labourer on construction sites, while his neighbour Suresh is a salaried government employee. When both approach a bank for a loan, only Suresh's application is approved. Give one reason why Ramesh might have been denied a bank loan and state which source of credit he is likely to turn to instead.

◆ Money and Credit

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CBSE CLASS X
Social Science (087)

ANSWER KEY
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Q1. straightforward initial-understanding § NOTES FOR THE TEACHER [1]

What constitutes the stock of money held by the public in an economy?

◆ Money and Credit

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Model Answer

The stock of money held by the public consists of **currency (coins and paper notes)** and **demand deposits** held with banks.

Explanation

Examiners expect both components to be named. "Currency" alone is incomplete. The source passage explicitly states: "demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy." The Notes for Teachers also confirm: "the stock of money consists of currency held by the public and the demand deposits that they hold with the banks."

Q2. medium initial-understanding § NOTES FOR THE TEACHER [2]

What is demonetisation? State one reason why the Indian government encouraged digital transactions following the demonetisation of 2016.

◆ Money and Credit

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Model Answer

Demonetisation is the process by which the government declares certain currency notes as invalid (no longer legal tender). In November 2016, the Indian government demonetised ₹500 and ₹1,000 notes, asking people to surrender them to banks and receive new currency.

Reason for promoting digital transactions: Digital transactions — through internet/mobile banking, cheques, ATM/credit cards, and POS machines — were encouraged to **reduce the use of cash** and also to **control corruption**.

Source: *Money and Credit, Modern Forms of Money / Notes for the Teacher*

Explanation

- Define demonetisation clearly (declaration of currency as invalid + the 2016 context).
- For the one reason, either "reduce cash requirement" or "control corruption" is acceptable — state both briefly to be safe in a 2-mark answer.
- Examiners look for the correct definition and a specific, relevant reason; avoid vague answers like "it was good for the economy."

Q3. medium initial-understanding § MONEY AS A MEDIUM OF EXCHANGE

[3]

What is 'double coincidence of wants', and why is it a problem in a barter system but not in a money-based economy?

◆ Money and Credit

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Model Answer

Double coincidence of wants is a situation in a barter system where both parties in an exchange must want exactly what the other has to offer. For example, a shoe manufacturer who wants wheat must find a farmer who not only sells wheat but also wants to buy shoes.

This is a major problem in barter because such a match is very difficult to find, making exchange slow and inconvenient.

In a money-based economy, this problem does not exist. Money acts as a **medium of exchange** — an intermediate step. The shoe manufacturer simply sells shoes for money, then uses that money to buy wheat from anyone. There is no need for both wants to coincide simultaneously.

Source: Chapter 3 — Money as a Medium of Exchange

Explanation

- **1 mark** for correctly defining double coincidence of wants (with an example for clarity).
- **1 mark** for explaining why it is a problem in barter (hard to find a matching pair).
- **1 mark** for explaining how money eliminates this problem (acts as medium of exchange — the intermediate step).

The textbook's own example (shoe manufacturer + wheat farmer) is the safest to use. The key phrase examiners look for is "**medium of exchange**" — always include it.

Q4. straightforward initial-understanding § MODERN FORMS OF MONEY

[1]

Why is modern currency — paper notes and coins — accepted as a medium of exchange even though it is not made of precious metals and has no use of its own?

◆ Money and Credit

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Model Answer

Modern currency is accepted as a medium of exchange because it is **authorised by the government**; in India, the law makes it a legal tender that no one can refuse in settling transactions.

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

Explanation

The examiner expects the key phrase "**authorised/backed by the government**" and the idea of **legal tender**. Mentioning RBI's role in issuing notes adds value but is not strictly necessary for 1 mark. Do not write about precious metals — the question already states that; just give the reason *why* it is still accepted.

Q5. medium initial-understanding § MODERN FORMS OF MONEY

[3]

What are demand deposits? Why are they considered equivalent to currency as a medium of exchange?

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Model Answer

Demand deposits are deposits held in bank accounts that can be withdrawn by the account holder on demand at any time.

They are considered equivalent to currency because of the **cheque facility**. A cheque is a paper instructing the bank to pay a specific amount from the payer's account to the payee. This allows transactions to be settled directly without physical cash — for example, a shoe manufacturer can pay a leather supplier by cheque, transferring money between bank accounts. Since demand deposits are widely accepted as a means of payment, they share the essential features of money (medium of exchange).

Source: Chapter 3 — Deposits with Banks

Explanation

- **1 mark** for defining demand deposits (withdrawable on demand).
- **2 marks** for explaining WHY they are equivalent to currency — focus on the **cheque facility** enabling cashless settlement of transactions.
- Mention the example (Salim & leather supplier) if space allows; it shows you understand the mechanism.
- Key phrase examiners look for: "*facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.*"
- Do **not** confuse demand deposits with fixed/term deposits — the key feature is "on demand" withdrawal + cheque payment facility.

Q6. medium initial-understanding § MODERN FORMS OF MONEY [1]

A shoe manufacturer needs to pay his leather supplier but does not want to use cash. He writes a cheque instead. Which of the following correctly describes what happens next?

- (A) The cheque amount is immediately withdrawn as cash from the shoe manufacturer's account and handed to the leather supplier.
- (B) The leather supplier deposits the cheque in his own bank account, and the amount is transferred from the shoe manufacturer's account to the leather supplier's account.
- (C) The cheque is first verified by the Reserve Bank of India before any transfer between the two accounts takes place.
- (D) The shoe manufacturer's bank directly credits the leather supplier's account only if both hold accounts in the same bank.
- A The bank gives the leather supplier cash equal to the cheque amount immediately from its vault.
- B The leather supplier deposits the cheque in his own bank account, and the amount is transferred from the shoe manufacturer's account to the leather supplier's account.
- C The cheque is sent to the Reserve Bank of India, which then prints new currency and hands it to the leather supplier.
- D The shoe manufacturer's account is frozen until the leather supplier presents the cheque in person at the shoe manufacturer's bank.

◆ Money and Credit

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Model Answer

Answer: (B)

The leather supplier deposits the cheque in his own bank account, and the amount is transferred from the shoe manufacturer's account to the leather supplier's account.

Explanation

Cheques are a demand deposit-based payment instrument. No cash changes hands; the bank simply debits the payer's account and credits the payee's account. RBI does not individually verify each cheque transaction, and inter-bank transfers are possible through clearing systems — the accounts need not be in the same bank. Options A, C, and D are all factually incorrect descriptions of how cheque payments work.

Q7. straightforward initial-understanding § LOAN ACTIVITIES OF BANKS [1]

Banks do not keep all the deposits they receive as cash. Why are they still able to meet the withdrawal demands of their depositors on any given day?

◆ Money and Credit

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Model Answer

Not all depositors withdraw money on the same day, so banks manage with only a small cash reserve (about 15% in India) to meet daily withdrawal demands.

Source: Money and Credit, Loan Activities of Banks

Explanation

The examiner wants one clear reason: withdrawals on any given day come from only *some* depositors, not all at once. Mention the small cash reserve kept for this purpose. Avoid writing more than one or two lines for a 1-mark answer.

Q8. straightforward initial-understanding § TWO DIFFERENT CREDIT SITUATIONS

[1]

What is a 'debt trap'?

◆ Money and Credit

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Model Answer

A **debt trap** is a situation where a borrower is unable to repay a loan, borrows again to cover the old debt, and gets trapped in a cycle of increasing debt from which recovery is very painful.

Source: Chapter 3, Two Different Credit Situations

Explanation

The term is directly defined in the passage using Swapna's example. Examiners expect you to mention: (1) inability to repay, (2) further borrowing/worsening situation, and (3) the idea that the borrower is worse off than before. One clear sentence covering these points is sufficient for 1 mark. Avoid writing a long paragraph.

Q9. straightforward initial-understanding § TWO DIFFERENT CREDIT SITUATIONS

[1]

Why do farmers need to take loans at the beginning of the crop season?

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Model Answer

Farmers need loans at the beginning of the crop season to meet the expenses of cultivation — such as seeds, fertilisers, pesticides, water, and equipment — since there is a gap of three to four months before they can sell the crop and earn income.

Source: Chapter 3, Two Different Credit Situations

Explanation

The key point is the **time gap** between spending on inputs and receiving income from the harvest. Examiners expect you to mention "expenses of cultivation" and the fact that repayment happens only after harvest. Naming a few examples of inputs (seeds, fertilisers) strengthens the answer even in one line.

Q10. medium initial-understanding § TERMS OF CREDIT

[3]

What is collateral, and why do lenders require it when giving a loan?

◆ Money and Credit

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Model Answer

Collateral is an asset owned by the borrower (such as land, building, vehicle, livestock, or bank deposits) that is used as a guarantee to the lender until the loan is repaid.

Lenders require collateral because it acts as security against the loan. If the borrower fails to repay, the lender has the right to sell the collateral to recover the money. It reduces the lender's risk and ensures that the borrower has an incentive to repay.

Source: Chapter 3 – Money and Credit, Terms of Credit

Explanation

- **Definition (1 mark):** Define collateral clearly with 1–2 examples from the text.
- **Why required (2 marks):** Two reasons — security for the lender, and right to sell if the borrower defaults. Both points must be stated.
- Examiners expect examples like land, building, livestock, bank deposits — pick at least one.
- Avoid writing a vague answer like "it is for safety"; always say *whose* safety and *what happens* if the loan is not repaid.

Q11. straightforward initial-understanding § Variety of Credit Arrangements

[1]

What is the main reason most farmers and labourers in a village cannot access bank loans for cultivation?

◆ Money and Credit

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Model Answer

Most farmers and labourers lack **collateral** (assets as guarantee) required by banks, making them ineligible for formal bank loans for cultivation.

Source: Money and Credit, Self-Help Groups for the Poor section

Explanation

The passage explicitly states: "Absence of collateral is one of the major reasons which prevents the poor from getting bank loans." Examiners expect the keyword **collateral** in the answer. One crisp line is sufficient for 1 mark.

Q12. medium initial-understanding § Variety of Credit Arrangements

[3]

How do cooperative societies help farmers and rural households meet their credit needs?

◆ Money and Credit

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Model Answer

Cooperative societies are a major source of cheap credit in rural areas. Members pool their resources and deposits together. Using these deposits as collateral, the cooperative obtains a large loan from the bank. These funds are then used to provide loans to members at low interest rates.

For example, Krishak Cooperative provides loans for purchasing agricultural implements, cultivation, agricultural trade, fishery, house construction, and other expenses. Once loans are repaid, another round of lending begins, making credit continuously available to rural farmers and households.

Source: Chapter 3, Loans from Cooperatives

Explanation

- Examiners look for: (1) how cooperatives work — members pool deposits, (2) how they get funds — use deposits as collateral to borrow from banks, (3) how they help — provide low-interest loans for multiple rural purposes.
- Mention the example of Krishak Cooperative to show real-world application — it adds precision.
- Avoid over-explaining; 3 marks = 3 clear points in concise sentences.

Q13. medium initial-understanding § Variety of Credit Arrangements

[1]

A farm labourer borrows repeatedly from her employer-landlord to cover daily expenses and repays by working for him. Which of the following best explains why this arrangement traps her in a cycle of debt?

- (A) She prefers to borrow from the landlord rather than from a cooperative society.
 (B) The high interest rate means each new loan is taken before the previous one is fully repaid, so the debt keeps growing.
 (C) She spends her earnings on things she does not need instead of repaying the loan.
 (D) The bank refuses to lend money to farm labourers.

A The landlord refuses to let her work on other farms, leaving her with no income.

B The high interest rate means each new loan is taken before the previous one is fully repaid, so the debt keeps growing.

C She spends her earnings on things she does not need instead of repaying the loan.

D The cooperative society has refused to admit her as a member.

◆ Money and Credit

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Model Answer

(B) The high interest rate means each new loan is taken before the previous one is fully repaid, so the debt keeps growing.

Explanation

The passage states Rama's employer charges 5% per month interest and that "most of the time, Rama has to take a fresh loan before the previous loan has been repaid." High informal interest rates make full repayment nearly impossible, trapping borrowers in a debt cycle. This is the textbook definition of a debt-trap. Options A and D are not supported by the passage about Rama.

Q14. straightforward initial-understanding § FORMAL SECTOR CREDIT IN INDIA

[1]

Which of the following is an informal source of credit?

- (A) Commercial bank
- (B) Cooperative society
- (C) Moneylender
- (D) Reserve Bank of India

- A Commercial bank
- B Cooperative society
- C Moneylender
- D Reserve Bank of India

◆ Money and Credit

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Model Answer

(C) Moneylender

Moneylenders belong to the informal sector of credit, which also includes traders, employers, relatives and friends. Banks, cooperative societies, and the RBI are all part of the formal sector.

Explanation

The textbook clearly distinguishes: **formal sources** = banks, cooperatives (supervised by RBI); **informal sources** = moneylenders, traders, employers, relatives/friends (no regulatory supervision). RBI supervises only formal lenders. For MCQs, simply write the option letter and the answer — one line is sufficient.

Q15. medium initial-understanding § FORMAL SECTOR CREDIT IN INDIA

[3]

Poor rural households depend far more on informal credit than rich households do. Why does this gap exist?

◆ Money and Credit

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Model Answer

Poor rural households depend more on informal credit than rich households because:

1. **Lack of collateral:** Banks require collateral (assets as guarantee) for loans. Poor households usually have no assets to offer, so banks refuse them loans.
1. **Limited bank presence:** Banks are not present everywhere in rural India, making formal credit inaccessible to the poor.
1. **Complex procedures:** Bank loans require proper documents which poor borrowers often cannot provide.
1. **Moneylenders' flexibility:** Informal lenders know borrowers personally and give loans without collateral or documentation, making them the only accessible option for the poor — though they charge very high interest rates.

In contrast, rich households possess assets to offer as collateral, making them eligible for formal (cheaper) bank loans.

Source: Chapter 3 — Formal Sector Credit in India; Self-Help Groups for the Poor

Explanation

Examiners expect **three distinct reasons** for 3 marks — each reason should be clear and brief. The key points are: **no collateral** → **banks refuse**, **banks absent/inaccessible**, and **moneylenders are flexible but expensive**. Avoid writing a long essay; just 3 focused points with a brief link to why rich households differ. Use textbook terms like "collateral," "formal/informal sources," and "terms of credit."

Q16. medium initial-understanding § SELF-HELP GROUPS FOR THE POOR

[3]

Why are the rural poor, especially women, often unable to obtain loans directly from formal sources of credit? How do Self Help Groups (SHGs) address this problem?

◆ Money and Credit

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Model Answer

Rural poor, especially women, lack **collateral** (assets to guarantee loans) and proper documents, which banks require for loans. Banks are also not present everywhere in rural India, making access difficult.

SHGs address this problem by:

- Organising 15–20 members who pool their savings regularly.
- Allowing members to take small loans from the group itself at lower interest rates.
- After 1–2 years of regular savings, the group becomes eligible for a bank loan sanctioned in the group's name — collateral is replaced by **group responsibility**.
- Since all members are jointly responsible for repayment, banks are willing to lend even without individual collateral.

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

Explanation

What examiners look for (3 marks):

- **1 mark** — reason rural poor/women can't access formal credit (no collateral, no documents).
- **2 marks** — how SHGs solve this: pooling savings → group loan eligibility → group guarantees repayment replacing collateral.

Key terms to use: *collateral, pool savings, group responsibility/liability, self-employment*. Avoid long lists; 2–3 crisp points on SHGs is enough. Don't write a general essay on SHGs beyond what's asked.

Q17. straightforward initial-understanding § SELF-HELP GROUPS FOR THE POOR [1]

In a Self Help Group, who makes the key decisions about loans — the bank, an NGO, or the group members themselves?

- A The bank that sanctions the loan
- B The group members themselves
- C A government-appointed NGO
- D The local moneylender

◆ Money and Credit

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Model Answer

Answer: (B) The group members themselves

In a Self Help Group, most important decisions regarding savings and loans — purpose, amount, interest rate, and repayment schedule — are taken by the group members themselves.

Source: *Money and Credit, Chapter 3 (Self-Help Groups for the Poor)*

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 B. Remember: the bank only sanctions the loan in the group's name, but **decision-making power lies with the members** — this is the defining feature of SHGs.

Q18. medium initial-understanding § SELF-HELP GROUPS FOR THE POOR [2]

Apart from providing credit, mention any two other benefits that Self Help Groups offer to their members.

◆ Money and Credit

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Model Answer

Apart from providing credit, Self Help Groups offer the following benefits:

1. **Platform for social issues:** Regular group meetings provide a platform to discuss and act on social issues such as health, nutrition, and domestic violence.
1. **Financial self-reliance:** SHGs help women become financially independent and self-reliant, empowering them economically.

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

Explanation

The question asks for benefits **other than credit**, so mentioning loans will fetch no marks. The passage clearly states two additional benefits: (i) a platform to address social issues, and (ii) helping women become financially self-reliant. Examiners expect these specific points from the textbook. One clear point per mark — no elaboration needed beyond a line or two each.

Q19. medium initial-understanding § SUMMING UP

[3]

Why is formal sector credit considered more beneficial for borrowers compared to informal sector credit in India?

◆ Money and Credit

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Model Answer

Formal sector credit is more beneficial for borrowers due to the following reasons:

1. **Lower interest rates:** Formal lenders like banks and cooperatives charge much lower interest rates (e.g., 8.5% p.a.) compared to informal lenders like moneylenders (up to 60% p.a.), reducing the burden on borrowers.
1. **RBI supervision:** The Reserve Bank of India supervises formal lenders, ensuring fair practices. No such body monitors informal lenders, who can use unfair means to recover money.
1. **Prevents debt trap:** Lower repayment burden means borrowers retain more income, avoiding the risk of a debt trap that high informal interest rates create.

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

Explanation

Examiners look for three distinct points for 3 marks — one point per mark. The key contrast is always: **lower cost** → **less burden** → **no debt trap**, plus **RBI regulation**. Avoid writing lengthy paragraphs; use numbered points for clarity. Always support with figures from the text (e.g., 8.5% vs 60%) to show textbook grounding.

Q20. medium initial-understanding § ADDITIONAL PROJECT / ACTIVITY

[3]

Ramesh works as a daily-wage labourer on construction sites, while his neighbour Suresh is a salaried government employee. When both approach a bank for a loan, only Suresh's application is approved. Give one reason why Ramesh might have been denied a bank loan and state which source of credit he is likely to turn to instead.

◆ Money and Credit

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Model Answer

Reason for denial: Ramesh is a daily-wage labourer with no fixed or regular income. Banks require proper documents (such as employment records and salary slips) and collateral (an asset as security) before sanctioning a loan. Ramesh likely lacks both — he has no proof of stable income and probably owns no property to offer as collateral. Absence of collateral is one of the major reasons that prevents the poor from getting bank loans.

Alternative source: Ramesh will likely turn to an **informal source of credit**, such as a moneylender, who knows borrowers personally and lends without collateral — though at a very high rate of interest.

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

Explanation

- The examiner expects **two parts**: (1) reason for denial — link it to *collateral* and/or *documentation/stable income*, and (2) the *informal source* Ramesh turns to.
- Use textbook vocabulary: "collateral," "informal sources," "moneylender."
- Don't just say "he is poor" — specify the mechanism (no collateral / no documents).
- Mentioning SHGs as an alternative would also earn credit, as the chapter presents them as a way for the poor to access loans without individual collateral.

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