

Lesson No. 3

Money and Credit

Barter System : Goods are exchanged without use of money.

Double Coincidence of wants : In exchange of goods both parties have to agree to sell and buy each others commodities. In a barter system double coincidence of wants is an essential feature.

Medium of Exchange : Money act as an intermediate in the exchange process. Currency is authorised by the government as medium of exchange.

- People deposit extra cash with the banks by opening the bank account in their name.
- The deposits in the bank accounts can be withdrawn on demand, these deposits are called demand deposits.
- A check is a paper instructing the bank to pay a specific amount from the persons account to the person in whose name the cheque has been made.

Loan Activities of Banks :

- Banks in India these days hold about 15% of their deposits as cash.
- Kept as provision to pay the depositors who might come to withdraw money from the bank on any given day.
- Bank use the major portion of the deposits to extend loans.
- Difference between the interest rates is the main source of income for banks.

Terms of Credit :

- Interest rate
 - Collateral
 - documentation requirement.
 - the mode of repayment.
- the varying terms of credit in different credit arrangements.

Formal Sector Credit in India

Loans from banks and co-operatives Functions of Reserve banks.


- Issues currency notes on behalf of the central government.
- RBI monitors the banks are actually maintaining cash balance.
- RBI collect information from banks, how much they are lending to whom, at what interest rate etc.

Informal Sector Loans

The informal lenders, traders, employers, relatives and friends etc.

- There is no organisation which supervise the credit activities of lenders.
- They can lend at what ever interest rate they choose.
- Their is no one to stop then from using unfair means to get their money back.

Questions :

1. How does money solve the problem of double coincidence of wants? Explain with an example.
2. What is check? How payments made with cheques? Explain with example.
3. How does RBI control the functioning of other banks? Why it is important
4. Why people take more loan from Informal Sector.
5. Compare the employment conditions prevailing in the organised and unorganised sectors.
6. Explain the objective of implementing the NREGA 5.