

MONEY & CREDIT

• MONEY AS A MEDIUM OF EXCHANGE

Q. Why transactions are made in money?

→ a person holding money can easily exchange it for any commodity or service that he or she might want. Thus everyone prefers to receive payments in money and then exchange the money for things that they want.

* both parties have to agree to sell and buy each other commodities.

Eg: A has shoes wants wheat → double coincidence of wants.
B has wheat wants shoes.

• in an economy where money is in use, money by providing the crucial intermediate step eliminates the need for double coincidence of wants.

↓
what a person desires to sell is exactly what other wishes to buy.

← how to eliminate double

• money acts as an intermediate in the exchange process, it is called a medium of exchange.

modern forms of money

• Indians used grains, rattles as money. thereafter came the use of metallic coins - gold, silver, copper coins.

Currency:

⇒ modern currency is without any use of its own.
• modern form of currency.
• It is accepted as a medium of exchange because the currency is authorised by the government of the country.

according to RBI:

i] no one is allowed to issue currency.

ii] no one can deny transaction of rupee as medium of payment.

Deposits with banks:

→ Bank accepts the deposits and also pay an amount as interest on the deposits.

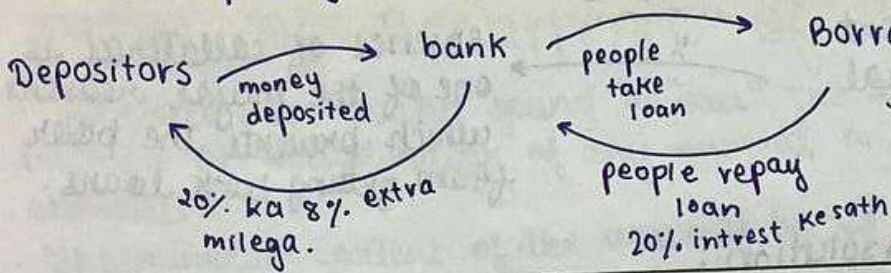
Defⁿ → the deposits in the bank account can be withdrawn on demand called demand deposits

Cheque: is a paper instructing the bank to pay a specific amount from the person's account to another person who's name has been issued on the cheque.

→ The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash.

LOAN Activities of banks:

• banks keep only 15% of their deposits as cash.



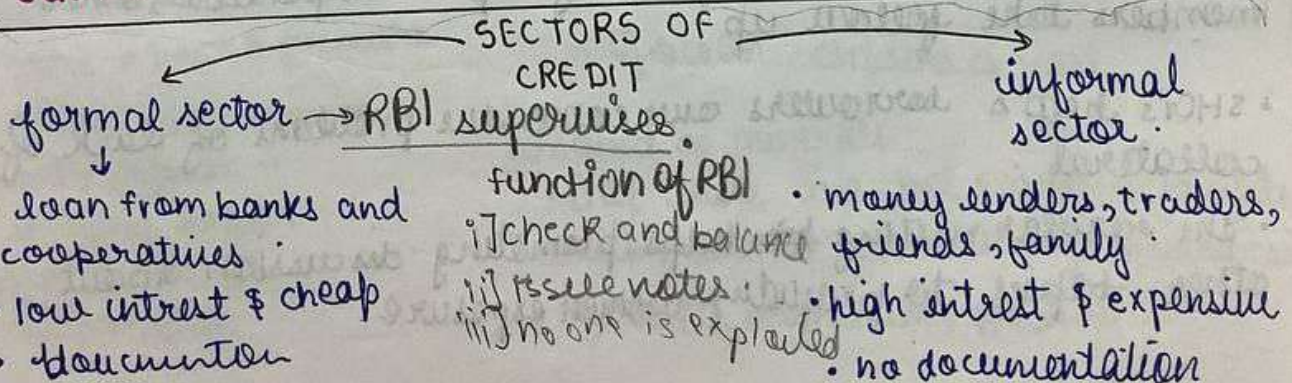
Loan aacha hai ki bekar?

→ credit/Loan would be useful or not, ∴ depends on the risks in the situation & whether there is some support in case of loss.

Credit (loan) refers to an agreement in which the lender supplies the borrowers with money, goods or service in return for the promises of future payment.

COLLATERAL: is an asset that the borrower owns and uses this as a guarantee to a lender until the loan is repaid.

• Interest rates, collaterals and documentation, requirement and the mode of repayment together comprises what is called the terms of credit. Do Co Mo Int.



* cheap and affordable credit is crucial for country's development.

• Thus it is necessary that banks and cooperatives increase their ~~lender~~ lending particularly in the rural areas, so that the dependence on informal sources reduces.

• Secondly, while formal sector loan need to expand, it is also necessary that ~~everyone~~ **EVERYONE!** receives these loan.

SELF-HELP GROUPS

• Banks are not present everywhere in rural India



Absence of collateral is one of the major reasons which prevents the poor from getting bank loans.

solution:

• The idea is to organise rural poor, in particular women, into smaller self help groups (SHG's) and pool (collect) their savings.

• A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly. saving per member varies.

• members can take small loans from the group.

• The group charges interest on these loans but this is still less than money lenders.

• Loan is sanctioned in the name of group.

• in any case of non-repayment group is responsible, other members take follow up.

• SHG's help's borrowers overcome the problem of lack of collateral.

• The regular meeting ~~help~~ helps promoting discussion about other topics to proudly women exposure.