

# **TYBA COACHING CENTRE**

## **CHAPTER 3: MONEY AND CREDIT**

Class 10 Economics | Complete Easy-English Notes

### **COMPLETE CHAPTER NOTES**

Written in easy English for classroom teaching, self-study and exam revision.

Study method: Read each topic, learn the key terms, practise the model answers, and then attempt the revision questions without looking.

**Prepared for students of TYBA Coaching Centre**

## 1. Barter System and Double Coincidence of Wants

Before money became common, people sometimes exchanged goods directly. This is called the barter system. For example, a farmer may exchange wheat for shoes.

Barter has a problem called double coincidence of wants. It means both people must want what the other person offers at the same time. If the farmer wants shoes but the shoemaker does not want wheat, the exchange cannot happen easily. Money removes this difficulty because people can sell goods for money and use that money to buy what they need.

## 2. Functions and Forms of Money

Money is something generally accepted as payment for goods and services. It acts as a medium of exchange. It makes buying and selling easier and allows people to compare prices.

Modern forms of money include currency notes, coins and money held in bank accounts that can be used for payments. In India, currency is issued under the authority of the Reserve Bank of India (RBI), with coins and notes governed by the relevant legal arrangements. People accept currency because it is authorised and widely trusted.

## 3. Bank Deposits and Cheques

People keep money in bank accounts for safety and convenience. Some deposits can be withdrawn whenever needed; these are called demand deposits. They can be used to make payments without carrying cash.

A cheque is a written instruction to a bank to pay a stated amount from one account to another person or account. When a cheque is deposited, banks transfer the amount through the banking system. Digital transfers and electronic payments also allow money to move between accounts. The account balance is money that can be used for payments, even though it is not held as cash in the person's hand.

## 4. Modern Banking and Money

Banks accept deposits from people and pay interest on some deposits. They keep a part of deposits available for withdrawals and use a large part to give loans. Banks earn income by charging borrowers interest, while paying depositors a lower rate of interest in many cases.

Banking connects savers and borrowers. Savers can keep money safely and may earn interest. Borrowers can use loans for farming, education, housing, business or other needs. Banks must manage withdrawals and lending carefully.

## 5. Credit or Loan

Credit means an arrangement in which a lender gives money, goods or services to a borrower now, and the borrower agrees to repay later. A loan agreement may include the amount borrowed, interest rate, time for repayment, security and other conditions.

Credit can help a person increase income. A farmer may borrow to buy seeds and repay after selling the crop. A shopkeeper may borrow to buy stock. But credit can also cause problems if income is not enough to repay the loan. A failed crop or loss of business can leave the borrower in debt.

## 6. Terms of Credit

The main terms of credit are:

- Interest rate: Extra money paid for borrowing.
- Collateral: An asset, such as land, a house or a vehicle, that the borrower promises as security.
- Documentation: Papers and proof required for the loan.
- Repayment period: The time allowed to repay the loan.
- Mode of repayment: The way the borrower returns the money, such as monthly instalments or a single payment.

The terms may differ between lenders and borrowers. A lender may ask for collateral and documents, while an informal lender may offer money quickly but charge very high interest.

## 7. Formal and Informal Sources of Credit

Formal sources include banks and cooperative societies. They work under rules and supervision. Their interest rates are generally more regulated and they can provide loans on clearer terms, though borrowers must meet the required conditions.

Informal sources include moneylenders, traders, employers, relatives and friends. They may be easy to approach, but some may charge high interest or impose unfair conditions. Poor households may depend on informal credit when they cannot access a bank loan.

Affordable formal credit is important because very costly loans can keep borrowers trapped in debt.

## 8. Role of the Reserve Bank of India

The Reserve Bank of India (RBI) is the central bank of India. It supervises banks and checks that they follow rules. It monitors certain details about how banks are working and supports the stability of the banking system. The RBI also influences the availability and cost of money and credit in the economy.

Supervision is necessary to protect depositors, maintain trust in banks and ensure that banks follow required rules. The RBI also works to ensure that credit is not limited only to large businesses and that important sections of the economy can access loans.

## 9. Self-Help Groups (SHGs)

Self-Help Groups are small groups, often made up of people with similar needs, who save money regularly. Members may lend small amounts from the group's savings. After building a record of saving and repayment, the group may receive a bank loan.

SHGs can help people who do not have property to offer as collateral. They encourage saving, shared responsibility and access to credit. Women's self-help groups can also support independence and decision-making in the household and community.

## 10. Credit: Helpful or Harmful?

Credit is helpful when it supports productive activity and the borrower can repay it. For example, a loan to buy a sewing machine may help someone earn more money.

Credit can become harmful when income falls or the loan has very high interest. If a farmer's crop fails, the farmer may not be able to repay the loan and may need to borrow again. This can create a debt trap, where the borrower keeps borrowing to repay earlier debt.

Before taking a loan, a borrower should compare interest rates, repayment dates, fees, collateral rules and the likely income from using the loan.

## Key Terms

Barter: Direct exchange of goods or services. | Double coincidence of wants: Both people must want what the other offers. | Demand deposit: Bank deposit that can be withdrawn when needed. | Cheque: Written order asking a bank to pay money. | Credit: Borrowing with a promise to repay. | Collateral: Asset offered as security for a loan. | Formal credit: Credit from banks and cooperatives. | Informal credit: Credit from moneylenders, traders, relatives and similar sources. | Debt trap: A situation in which debt becomes difficult to repay and leads to further borrowing.

## Exam-Ready Questions and Answers

Q1. What is double coincidence of wants? (2 marks)

It is a situation in barter where each person must want the good offered by the other person at the same time. This makes barter difficult.

Q2. How does money solve the problem of barter? (3 marks)

Money acts as a common medium of exchange. A person can sell a product for money and then use that money to buy another product. The seller does not need to want the buyer's product directly.

Q3. What are demand deposits? Why are they considered money? (3 marks)

Demand deposits are bank deposits that can be withdrawn when needed. They can be used to make payments through cheques or electronic transfers, so they perform many functions of money.

Q4. Explain the main terms of credit. (5 marks)

Terms of credit include the interest rate, collateral, documents, repayment period and method of repayment. These terms decide how much the borrower pays, what security is needed and when the loan must be returned.

Q5. Differentiate between formal and informal sources of credit. (3 marks)

Formal sources include banks and cooperatives, which follow official rules and supervision. Informal sources include moneylenders, traders and relatives. Informal lenders may be easier to approach but can charge high interest or set unfair terms.

Q6. Why is cheap and affordable credit important? (3 marks)

Affordable credit helps people invest in farming, education and small businesses without losing too much income to interest. It reduces the risk of a debt trap and supports economic activity.

Q7. How does the RBI supervise banks? Why is this necessary? (5 marks)

The RBI checks that banks follow rules and monitors important aspects of their work. Supervision helps protect depositors, maintain trust, support a stable banking system and encourage responsible lending.

Q8. What are Self-Help Groups? How do they help poor people? (5 marks)

SHGs are small groups whose members save regularly and may lend from the group's savings. After building a good record, they may receive bank loans. They help people who lack collateral, encourage saving and can improve the financial independence of members.

Q9. Explain how credit can create a debt trap. (3 marks)

If a borrower cannot earn enough to repay a loan and interest, they may borrow again to repay the earlier loan. Repeated borrowing increases the debt and makes repayment more difficult. This is called a debt trap.

## Quick Revision / Practice

- Barter requires double coincidence of wants.
- Money is a medium of exchange.
- Demand deposits can be withdrawn when needed and used for payments.
- Banks accept deposits and provide loans.
- Credit can help production but may cause a debt trap.
- Collateral is security for a loan.
- Formal credit: banks/cooperatives; informal credit: moneylenders, traders, relatives.
- SHGs encourage saving and access to small loans.

MCQs:

1. A written order to a bank to pay money is a: (a) loan (b) cheque (c) collateral (d) deposit slip. Answer: (b)
2. Land pledged for a loan is: (a) interest (b) collateral (c) currency (d) GDP. Answer: (b)
3. Which is a formal source of credit? (a) Moneylender (b) Friend (c) Bank (d) Trader. Answer: (c)
4. Repeated borrowing to repay old loans may create: (a) a debt trap (b) public facility (c) GDP (d) barter. Answer: (a)

**Final Exam Tip: Write the meaning first, explain each point in a separate sentence, and add a simple example wherever possible.**