



**CLASS X**  
**ECONOMICS**  
**UNIT – II**  
**MONEY AND FINANCIAL SYSTEM**

**SOLUTIONS**

**EXERCISE**

**A. VERY SHORT ANSWER TYPE QUESTIONS**

**Q1. What is a barter economy?**

**Ans:-** Barter Economy is where goods are exchanged for goods.

**Q2. What is Money?**

**Ans:-** Money is anything that is accepted as a medium of exchange.

**Q3. How long have metals been used for money?**

**Ans:-** The use of metals for money can be traced back to Babylon more than 2000 Years BC.

**Q4. Which country used paper money first?**

**Ans:-** China used paper money first.

**Q5. When does the value of money decline?**

**Ans:-** When the inflation rate rises, the value of money declines.

**B. SHORT ANSWER TYPE QUESTIONS**

**Q1. What are the functions of money?**

**Ans.** Functions of money are as follows

**Medium of Exchange:** Any commodity can be purchased or sold through the medium of money because money has the merit of general acceptability.

**Measure of Value:** It refers to the monetary expression of all goods and services. E.g. the price of a pen as Rs 5, the price of a book as Rs. 10, etc. It is also referred to as the unit of account function of money.

**Store of value:** Wealth can be conveniently stored in the form of money because the value of money remains relatively stable compared to other commodities and storage of money does not need much space.



মণিপুরৰ শিক্ষা বিভাগ (সংসদ)

**DEPARTMENT OF EDUCATION (S)**

Government of Manipur

**Standard of Deferred Payments:** In the modern economic system, loans are generally given and taken and the repayment is generally postponed for a future date. As with money, the exact amount to be repaid can easily be calculated.

**Transfer of value:** with money, purchasing power can be transferred from one person to another and from one place to another, up to any amount, easily, quickly and efficiently.

**Q2. How has money solved the problem of double coincidence of wants?**

**Ans:** Before the evolution of money goods were exchanged for goods. The inconvenience of lack of double coincidence of wants has been solved with money as a medium of exchange. Every person is ready to exchange his goods with money. For example, he can sell some eggs to get some money and use the money to buy what he needs. Thus, the introductions of money overcome the drawbacks of double coincidence of wants and smoother the process of exchange.

**Q3. Why do we accept paper notes?**

**Ans:-** Money made of paper is known as paper money or currency notes, we accept paper notes as a means of payment and a store of value because the government has taken steps to ensure that money is accepted. The government declares the paper money as legal tender. In India, the note is guaranteed by the Central Bank i.e. the Reserve Bank of India accepts one rupee notes and one rupee coin.

**Q4. What are the responsibilities of the RBI?**

**Ans:** RBI as the Central Bank of India has the responsibility of regulating the volume of money supply, the cost and availability of credit, and the foreign exchange rate. RBI has the sole responsibility of issuing currency notes on behalf of the government of India.

**Q5. In what ways is the SBI different from the RBI?**

**Ans:** Difference between SBI and RBI

<b>RBI</b>	<b>SBI</b>
1. RBI is the head of the Banking system	1. SBI is one of its member banks.
2. RBI is the Central bank of India	2. SBI is a public Sector Commercial bank
3. RBI has the power to issue currency notes	3. SBI has no such function
4. The RBI has supervising power over the SBI	4. SBI does not have such power



মহাশিক্ষা দপ্তর (মাম)

**DEPARTMENT OF EDUCATION (S)**

Government of Manipur

### C. LONG ANSWER TYPE QUESTIONS

**Q1. Why is a bank so important in a financial system?**

**Ans:**

- i) Bank, the financial institution is one of the three basic pillars in a financial system.
- ii) Bank acts as saving institution for depositing surplus money.
- iii) Money with bank is always safer.
- iv) Bank acts as a mediator between depositors and borrowers
- v) Lastly, bank gives cheap credit or loans.

**Q2. What are the new forms of money?**

**Ans:** The new forms of money include currency - Paper notes, Coins, and deposits with banks. Most of the countries have distinct currencies just like the Rupee of India, the currency of the USA is known as the dollar.

**Credit Money-** It refers to bank deposits by people with banks that they can withdraw at any time they like or transfer it to someone else through a bank cheque.

**Plastic Money-** The most modern form of money is plastic money is the form of debit and Credit cards.

**Q3. What are the requirements of a cheque?**

**Ans:** Deposits held with the bank from the public are of two types

- (a) Demand Deposits
- (b) Time Deposits.

**Demand Deposits:** Are those deposits that can be withdrawn on-demand with the help of cheques. A cheque is an instruction on the issuing bank to pay a specific sum of money to the person in whose name the cheque has been drawn. Payments can be settled without cash by using cheques.

**Feature of a cheque:**

The name of the person to whom the money is to be paid.

Signature of the account holder who issues the cheque. (If the account holder is illiterate he/she will be using thumb impressions)

**Q4. Why should farmers be helped to take loans from banks?**

**Ans:-** Farmers should be helped to take loans from banks because of the following reasons:

- i) Banks available the credit to the farmers at a lower rate of interest.
- ii) In general, non-formal sources of credit such as village money lenders, traders charge very high rate of interest.

So, if the farmers borrow from the non-formal sources they have to repay much higher than what they have to repay to the banks. However, farmers who are illiterate face certain personal problems to complete the necessary paperwork. Proper channels for banking habits should be given to the poor farmer to save from the exploitation and leading a miserable life. Thus, farmers should help to take loans from banks by proper guidance.



জগদীশ্বরনাথ দেব নন্দনাম (আম)

**DEPARTMENT OF EDUCATION (S)**

Government of Manipur

**Q5. How has the institution of *Marup* helped us? Is it a safe institution?**

**Ans:-** *Marup* is an age-old informal savings institution. A group of people who know each other come together and pool in a fixed amount at regular intervals. We fixed it in every section of society from the high-income class to the low-income class. The savings so accumulated one given to a member of the marup. He should continue paying his share till every member of the marup gets his share along with interest on what he has already received.

*Marup* works on mutual faith and it is not uncommon to find organizers of such marups out rightly cheating the members through irregular payments and wilful default. It is not a full-proof institution because it is informal.

**Q6. You have deposited Rs. 5000 in the bank. How much money will you receive after two years if the annual interest rate is 7%. How much you will get if the rate is monthly?**

**Ans:**

I) Here, P = Rs. 5000/-  
R = 7% per annum  
T = 2 Years  
I = ?

Amount after 2 years =  $P + \frac{PRT}{100}$   
=  $5000 + \frac{(5000 \times 7 \times 2)}{100}$   
=  $5000 + 700$   
= 5700/-

II) P=5000/-  
R = 7% per Month.  
T = 2 years = 24 months

**A = P +  $\frac{PRT}{100}$**   
=  $5000 + \frac{(5000 \times 7 \times 24)}{100}$   
=  $5000 + 8400$   
= 13400/-

OR

**Explanation:**

Sum	Interest
A sum of Rs 100/- will earn	Rs. 7/-per annum
Rs. 1000/- will earn	Rs. 70/- Per annum
Rs. 5000/- will earn	Rs. 350/- Per annum (70 X 5=350)
In two years Rs. 5000/- will earn	Rs. 700/- per annum (350 X 2=700)

Therefore, I shall get a sum of Rs. 5700/- at the end of two years.

Again, when annual interest of Rs. 100 is 7%

i.e.  $(12 \times 7) = 84$

Rs. 1000 – will get 840 per annum.

Thus, Rs. 5000/- will earn an 4200/- per annum  $(840 \times 5 = 4200)$

In two years, 5000/- will ger Rs. 8400/- per annum

Therefore, I shall get a sum of 13400/- after two years =  $(5000 + 8400)$



## EXTRA QUESTIONS AND ANSWERS

### VERY SHORT ANSWER QUESTIONS

**Q1. State one difficulty of the barter system.**

**Ans.** Lack of double coincidence of wants of exchange is a difficulty of the barter system.

**Q2. Can we live without money? Give one reason.**

**Ans.** No, with the disappearance of money, all difficulties of barter system would emerge again.

**Q3. What is meant by Credit Creation?**

**Ans.** Credit creation refers to the ability of a bank to expand deposits as a multiple of its reserves.

**Q4. What is Exchange Rate?**

**Ans.** The cost of one foreign currency in terms of a domestic currency is known as the exchange rate.

**Q5. What is the Cash Reserve Ratio (CRR)?**

**Ans.** In India, it is mandatory for scheduled commercial banks to keep around 8.5 percent of net total liabilities with RBI. This is the cash reserve ratio.

**Q6. What is the convenience or advantage of the Automated Teller Machine (ATM)?**

**Ans.** ATMs make money more readily available and are more convenient to use by accepting transactions even when banks are closed.

**Q7. What is the origin of the sub-prime crisis in the USA?**

**Ans.** Its origin lies in the sanction of loans to people with poor repayment history.

### SHORT ANSWER TYPE QUESTION

**Q1. Write the features of Money.**

**Ans:** Features of Money are:

- a) Money possesses general acceptability.
- b) It is a medium of exchange.
- c) It measures the value of all commodities and services.
- d) It is the most liquid form of assets.
- e) Money is a means and not an end itself.
- f) The supply of money is controlled by the central bank.





ꯀꯪꯂꯩꯛꯐꯪ꯫ ꯏꯛ ꯪꯂꯩꯐꯪ꯫ (ꯏ꯫)

**DEPARTMENT OF EDUCATION (S)**

Government of Manipur

**Q2. What are the functions of the Central Bank (RBI)?**

**Ans:** The main functions of the RBI are as follows:

- a) It is the sole authority for the issue of the currency in India other than one rupee notes and coins.
- b) It acts as banker to the government- both central and state
- c) It is the bankers' bank and their supervisor
- d) It promotes commercial banking

**Q3. State two main functions of Commercial banks.**

**Ans:** The two main functions of commercial banks:-

- a) Accepts deposits from the public.
- b) Grants loans to consumers and investors.

**Q4. Write the full form of NABARD and its function.**

**Ans:** NABARD = National Bank for Agricultural and Rural Development.

Its function is to provide credit for the promotion of agriculture and rural development.

**Q5. How does Self Help Group (SHG) develop banking habits among women?**

**Ans:** A big effort is being made to develop banking habits among Self Help Groups.

- i) Self Help Groups are channels for providing microcredit from banks to women in particular.
- ii) Women are given a small amount of credit at a highly concessional rate through SHG i.e., without producing the collaterals.

**Q6. What hinders the development of banking habits in India? Examine.**

**Ans:**

- i) The frequent announcement of loan waivers as in the Union Budget (2008-2009) amounting Rs 60,000 Crores could hinder the development of banking habits in India.
- ii) This would strengthen the unfortunate belief that bank loans are not to be repaid.

### LONG ANSWER QUESTION

**Q1. Explain various stages in the evolution of money. Give some importance of money.**

**Ans:** The development of money has passed through various stages in accordance with time, place, and circumstances with, the progress of the economic civilization of mankind. Different stages of the evolution of Money:

**Animal Money** – Domestic animals were used as money. e.g. Cow, Goat, etc.

**Commodity Money**- In many countries money also took the form of commodity money. Such as candy bars, Cigarettes, beads, etc.



ꯀꯪꯂꯩꯄꯪꯂꯩꯄ ꯇꯤ ꯂꯩꯂꯩꯂꯩꯄ (ꯇꯩꯂ)

**DEPARTMENT OF EDUCATION (S)**

Government of Manipur

**Metallic Money-** The use of metals as money ultimately led to the development of the coinage system. The use of metals for money can be traced back to Babylon more than 2000 years BC. The earliest coins were made of electrum, a mixture of gold and silver. The coins were crude, bean-shaped ingots.

Many kings of Manipur also issued coins made of bell metal, silver, and gold.

**Paper Money** - With the passage of time the problems of safe movements of costlier metals and the scarcity of metals led to the introduction of paper money. The first use of paper money occurred in China more than 1000 years ago.

**Credit Money:** In the modern economies, with the development of banking system credit money, along with paper money came into existence cheques are now being used as money.

**Importance of money can be seen as follows:**

Money may not produce anything, but without it, nothing can be produced.

With the help of money, consumers make payments for goods and services.

Money has contributed to economic growth.

**Q2. Discuss the informal source of credit in our financial system.**

**Ans:** Informal source of credit includes credit from traders, relatives, friends and money lenders, etc. There are no such organizations to supervise the lending activities of such sources.

In general, informal source of credit has a higher interest rate than the formal sources of credit. Farmers need credit on a loan for many purposes such as improvement of land, purchase of new equipment, social functions. Loans on credit involve an agreement between the creditor who provides the money, goods and services, and the borrower. Sometimes these needs are so pressing that we are compelled to get credit from any source. According to the 59<sup>th</sup> round of National Sample Survey, 48.6 percent of farming households of India are indebted in 2003. 58% of the outstanding amount was obtained from formal sources and the balance 42% from constituents of the informal sector such as money lenders traders, relatives, and friends. It was estimated that Rs. 48,000 crores of farmer debt were from non-formal channels where the interest was exorbitantly high.

\*\*\*\*\*