

Chapter – 3

Money And Credit

(Assertion and Reason Questions)

Mark the option which is most suitable :‘

(a) If Both assertion and reason are true, and reason is the correct explanation of assertion.

(b) If Both assertion and reason are true, but reason is not the correct explanation of assertion.

(c) If Assertion is true, but reason is false.

(d) If Both assertion and reason are false.

Q.1. Assertion (A) : The modern currency is used as a medium of exchange; however, it does not have a use of its own.

Reason (R) : Modern currency is easy to carry

Q.2. Assertion (A) : In India, no individual can refuse to accept a payment made in rupees.

Reason (R) : Rupee is the legal tender in India.

Q.3. Assertion (A) : The facility of demand deposits makes it possible to settle payments without the use of cash.

Reason (R) : Demand deposits are paper orders which make it possible to transfer money from one person's account to another person's account.

Q.4. Assertion (A) : Banks keep only a small proportion of their deposits as cash with themselves.

Reason (R) : Banks in India these days hold about 15 per cent of their deposits as cash.

Q.5. Assertion (A) : Banks charge a higher interest rate on loans than what they offer on deposits.

Reason (R) : The difference between what is charged from borrowers and what is paid to depositors is their main source of income.

Q.6. Assertion (A) : Rohan took credit in the form of advance payment from a buyer and he delivered the goods to the buyer on time and also earned profit. The credit made Rohan better off in this situation.

Reason (R) : Credit can never push a person into a debt trap.

Q.7. Assertion (A) : Credit would be useful or not depends on the risk involved in a situation.

Reason (R) : The chance of benefitting from credit is highest in agriculture sector.

Q.8. Assertion (A) : Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.

Reason (R) : Collateral is given as the lender can sell the collateral to recover the loan amount if the borrower fails to repay the loan.

Q.9. Assertion (A) : The terms of deposit are same for all credit arrangements.

Reason (R) : Credit arrangements are very complex process so to remove the complexities same terms of deposits are used.

Q.10. Assertion (A) : The Reserve Bank of India supervises the functioning of formal sources of loans.

Reason (R) : The RBI sees that the banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.

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ANSWER KEY

Q.1 : (b) The modern currency is used as a medium of exchange because it is accepted and authorized as a medium of exchange by a country's government.

Q.2 : (a) The law legalizes the use of rupee as a medium of payment that cannot be refused in settling transactions in India.

Q.3 : (d) The facility of cheques against demand deposits makes it possible to directly settle payments without the use of cash. Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.

Q.4 : (b) Banks keep only a small proportion of their deposits as cash with themselves because they use the major portion of the deposits to extend loans as there is a huge demand for loans for various economic activities.

Q.5 : (a) Banks in India hold about 15 per cent of their deposits as cash as the remaining deposits are used to provide loans. The interest charged on loans is higher than the interest paid on deposits and the difference between the two interest rates is the major source of income for banks.

Q.6 : (c) The credit made Rohan better off in this situation, however, Rohan would have been worse off if he had failed to deliver the goods on time or he had made a loss in the production process. The latter two situations may have caused Rohan to fall in a debt trap.

Q.7 : (c) Whether credit would be useful or not depends on the risks in the situation and whether there is some support, in case of loss.

Q.8 : (a) Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing. In case of failure of repayment of loan, the lender can sell the collateral to recover the loan amount.

Q.9 : (d) The terms of credit vary substantially from one credit arrangement to another. They may vary depending on the nature of the lender and the borrower.

Q.10 : (b) The RBI oversees the functioning of commercial banks. The reason statement substantiates the assertion but it is not the explanation for the assertion.