

Barter system: The barter system was used before the advent of money. People used to exchange one thing for another in this system.

Double coincidence of wants: The double coincidence of wants is the major drawback of the barter system. It can be very difficult to find a person who can fulfill this condition. Suppose you want to barter your MP3 player with a game console, then you need to find a person who wants to barter his game console for an MP3 player.

→ Money as medium of exchange - RBI issues currency notes

Modern forms of money: Currency [Paper notes & coins]; deposits with banks; Plastic money; Demand deposits [the deposits in the banks which can be withdrawn on demand]; Cheques [paper instructing the bank to pay a specific amount from the person's account to the other person's account in whose name cheque has been made].

Loan activities of Banks: ① Banks in India these

days hold about 15% of their deposits as cash.

② kept as provision to pay the depositors who might come to withdraw money from the bank on any given day.

③ Bank use the major portion of the deposits to extend loans.

④ 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.

* Collateral - an asset which is owned by the borrower and is used as a guarantee to a lender until the loan is repaid. Eg. land, house, vehicle, livestock, deposits with banks, gold, etc.

Sources of Credit

Formal Sources

- * They follow those sources of credit, which are registered by the govt. and have to follow its rules & regulations
- * RBI supervises the functioning
- * Charge low interest rate
- * main motive is social welfare
- * most of rich & middle class families take loans

Examples - Banks & Cooperatives

Informal sources

- * these include those small and scattered units which are largely outside the control of the govt.
- * no organisation supervises the credit activities
- * charge high interest rate
- * main motive is profit
- * poor people take loans

Examples - Moneylenders, traders, employees, relatives & friends etc

Self Help Groups SHGs

In recent years, people have tried out some newer ways of providing loans to the poor. The idea is to organise rural poor, in particular women, into small SHGs and pool [collect] their savings.

- * 15-20 members usually belonging to one neighbourhood, who meet & save regularly.
- * Saving per member varies
- * members can take small loans from the group itself to meet their needs
- * less interest rate is charged
- * no collateral is required
- * After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank
- * Loan is sanctioned in the name of the group and is meant to create self-employment opportunities for the members.
- * SHGs are the building blocks of organisation of the rural poor.