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CLASS X · SOCIAL SCIENCE (087) · ECONOMICS · CBSE BOARD EXAMINATION 2027

ECONOMICS · CHAPTER 3

Money and Credit

Chapter Practice Booklet · Questions only

10 note blocks + formal vs informal table | 5-mark data case + 4 cases | PYQs 2025–2026 | 63 practice questions | Model Answer Booklet

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STUDENT DETAILS

NAME _____

CLASS & SECTION _____

ROLL NO. _____

BOOKLET STARTED ON _____

CHAPTER TEST SCORE _____ / 20

1

READ THIS FIRST

Chapter Notes

The whole chapter in short-note form: money and its modern forms, how banks lend, credit and its terms, formal and informal sources, cooperatives and Self-Help Groups. Revise from here – you should not need the textbook again.

1 Money as a medium of exchange

- In **barter**, goods are exchanged directly for goods. A shoemaker who wants wheat must find a farmer who has wheat **and** wants shoes.

Double coincidence of wants: what one person wishes to sell is exactly what the other wishes to buy – both parties must agree to sell and buy each other's goods.

- Money removes this problem. It acts as an **intermediate** in the exchange: the shoemaker sells shoes for money and then buys wheat from anyone with that money. Hence money is called a **medium of exchange**.

2 Modern forms of money

- Before coins, many things were used as money – **grains, cattle**; later **gold, silver and copper coins**.
- **Currency** today is **paper notes and coins**. Unlike gold coins, they have no value of their own; they are accepted because they are **authorised by the government**.
- In India the **Reserve Bank of India (RBI)** issues currency notes **on behalf of the Central Government**. No other individual or organisation may issue currency. The law makes the **rupee** a means of payment that **cannot be refused** in India.

Demand deposits: deposits in bank accounts that can be **withdrawn on demand**. Depositors also earn some interest.
Cheque: a paper instructing the bank to pay a specific amount from the account holder's account to the person in whose name it is issued.

- Because payments can be made by cheque instead of cash, demand deposits share the essential features of money and are counted as modern money – along with currency.

3 Loan activities of banks

- Banks keep only a small part of their deposits – **about 15 per cent** – as cash, to pay depositors who withdraw money on any day.
- They use the **major portion** of deposits to **give loans**. In this way banks link those who have **surplus funds** with those who **need funds**.
- Banks charge a **higher rate of interest on loans** than they pay on deposits. This **difference** is the **main source of income** of banks.

4 Two different credit situations

Credit (loan): an agreement in which the lender supplies the borrower with money, goods or services in return for the **promise of future payment**.

Credit helps	A shoe maker gets a big festival order. He borrows to buy leather and pay workers, completes the order on time, earns a profit and repays the loan. He is **better off**.
Credit hurts	A small farmer borrows from a moneylender for her crop. Pests destroy it; she cannot repay, borrows again, and finally sells part of her land. She is **worse off** – caught in a **debt trap**.

- Whether credit is useful depends on the **risks** in a situation and on **support** in case of loss.

5 Terms of credit

- **Interest rate** – the extra amount the borrower pays along with the principal.
- **Collateral** – an asset the borrower owns (land, building, vehicle, livestock, bank deposits) and uses as a **guarantee** to the lender until the loan is repaid. If the loan is not repaid, the lender has the right to **sell the collateral**.
- **Documentation** – papers such as employment and salary records.

- **Mode of repayment** – e.g. monthly instalments.
- Together these are the **terms of credit**; they vary from one credit arrangement to another.

EXAMPLE
A teacher takes a housing loan from a bank at 12% a year for 10 years. She gives salary records, and the papers of the new house stay with the bank as collateral until she has paid every instalment.

6 Variety of credit arrangements in a village

- A **small farmer** borrows from the moneylender at **5% per month** – that is **60% a year** – and often has to sell his crop to the lender at a low price.
- A farmer with more land gets a **bank loan** at about **8.5% a year**, repayable in three years, with land papers as collateral.
- A **landless labourer** borrows from the **landowner** who employs her, at a high rate, and repays by working for him – she has nothing to offer as collateral.
- Small farmers, landless workers and the poor borrow mostly from **informal** lenders; better-off farmers use banks.

7 Formal sector credit in India

Formal sources	**Banks and cooperatives**. Supervised by the **RBI**.
Informal sources	**Moneylenders, traders, employers, relatives and friends**. **No organisation supervises** them – they can charge any interest and use unfair means to recover loans.

How the RBI supervises formal credit:
1. Banks must keep a **minimum cash balance** out of the deposits they receive.
2. Banks must give loans not only to profit-making businesses and traders but also to **small cultivators, small-scale industries and small borrowers**.
3. Banks must **report periodically** how much they lend, to whom, and at what interest rate.

- Higher cost of borrowing means a larger part of the borrower's earnings goes in repayment; income falls, and a **debt trap** may follow. Cheap credit, by contrast, lets people invest and raise their incomes.

8 Formal and informal credit: who gets what?

- **Poor households** (urban and rural) get most of their loans from **informal** sources; **rich households** get most of theirs from **formal** sources.
- Why: banks are not present everywhere in rural India; bank loans need **proper documents and collateral**, which the poor lack. Moneylenders know borrowers personally and lend **without collateral**, even when the borrower has not repaid earlier loans – but at very high interest.
- So banks and cooperatives must **increase lending, particularly in rural areas**, and formal credit must be **more equally distributed** so that the poor benefit.
- **Cheap and affordable credit is crucial for the country's development.**

9 Cooperatives

- Besides banks, the other major source of **cheap credit in rural areas** is the **cooperative society**.
- Members **pool their resources** for cooperation – farmers', weavers' and workers' cooperatives exist.
- A cooperative **accepts deposits** from its members. Using these deposits as **collateral**, it obtains a large loan from a **bank**.
- It lends to members for **agricultural implements, cultivation, agricultural trade, fishing, house construction** and other expenses; as members repay, the money is lent again.

10 Self-Help Groups (SHGs) for the poor

- An SHG has **15–20 members**, usually **women** from one neighbourhood, who meet and **save regularly** – from about ₹25 to ₹100 or more each, depending on their ability.
- Members can take **small loans** from the group's savings at reasonable interest.

- After a **year or two** of regular saving, the group becomes eligible for a **bank loan**, sanctioned **in the name of the group**, to create self-employment – releasing mortgaged land, working capital, buying sewing machines, handlooms or cattle.
- The **group** decides savings and loans and is **responsible for repayment**; members treat non-repayment seriously. So banks lend even though members have **no collateral**.

- SHGs give **timely loans at reasonable interest**, make women **financially self-reliant**, and their meetings let members discuss **health, nutrition and domestic violence**.
- **Supporting fact:** the Grameen Bank of Bangladesh, started by **Professor Muhammad Yunus** (Nobel Peace Prize, 2006), showed that the poor, especially women, are reliable borrowers.

Formal and informal credit at a glance

3-mark 'distinguish' answers come from this table

Basis	Formal sources	Informal sources
Who lends	banks, cooperatives	moneylenders, traders, employers, relatives, friends
Supervision	RBI supervises	no one supervises
Interest	lower, fixed by rules	much higher; any rate
Collateral and papers	needed	often not needed
Recovery	legal means	may use unfair means
Main users	rich households, better-off farmers	poor households, small farmers, labourers

Key terms

1- and 2-mark answers

Barter system – direct exchange of goods for goods

Double coincidence of wants – each party wants exactly what the other offers

Medium of exchange – money as the intermediate in all exchanges

Currency – paper notes and coins, issued by the RBI for the Central Government

Demand deposit – bank deposit that can be withdrawn on demand

Cheque – paper instructing a bank to pay a sum from the account to a named person

Credit (loan) – money, goods or services given now for a promise of future payment

Interest – extra amount paid by the borrower along with the principal

Collateral – asset pledged by the borrower as a guarantee until repayment

Terms of credit – interest, collateral, documents and mode of repayment

Debt trap – borrower unable to repay, left worse off than before

Formal sources – banks and cooperatives, supervised by the RBI

Informal sources – moneylenders, traders, employers, relatives – unsupervised

Self-Help Group – 15–20 poor people, mostly women, who save and borrow together

Exam snapshot

What the board asks, and how to prepare

SYLLABUS 2026–27

- Money as a medium of exchange; modern forms of money
- Loan activities of banks; two different credit situations
- Terms of credit; formal sector credit in India
- Self-Help Groups for the poor

BOARD WEIGHTAGE

20 / 80

Economics is Section D (Q29–Q38). In 2026 (32/1/1) this chapter gave an MCQ on a small farmer's source of loan (Q31) and the **3-mark Q36** (formal vs informal credit) – 4 marks. 2025 (32/1/1) gave two MCQs (Q18 why bank loans are hard for small farmers; Q19 who relies on informal credit in cities) and the **4-mark source-based Q36** on cooperatives – 6 marks. Expect **4–6 marks**.

MOST ASKED IN BOARD PAPERS, 2025–2026 (2 PAPERS READ IN FULL)

How often	Topic / question type	Marks	Papers
★★★	Formal vs informal sources of credit; who gets what	1–3	2 of 2
★★☆	Why bank loans are hard for the poor – collateral, documents	1	1 of 2
★★☆	Cooperatives as a source of credit	4	1 of 2
★★☆	Terms of credit; collateral; debt trap	1–3	NCERT core
★★☆	Self-Help Groups	3–5	NCERT core
★★☆	Money, demand deposits, banks and the RBI	1–3	NCERT core

ANSWER-WRITING RULES FOR SOCIAL SCIENCE (CBSE 2026–27)

2 marks
Very short answer · up to 40 words · 2 clear points

3 marks
Short answer · up to 60 words · 3 points

4 marks
Case / source based · up to 100 words in all · answer from the source

5 marks
Long answer · up to 120 words · 5 points, with an intro line

Write in points, underline key words, and give one example or date wherever you can. Read every "OR" choice before you start, and attempt only one.

MISTAKES THAT COST MARKS

- Writing that the RBI lends to farmers – the RBI **supervises** banks; banks and cooperatives lend.
- Calling cooperatives an informal source – they are **formal**, like banks.
- Writing that banks keep all deposits as cash – they keep **about 15%** and lend the rest.
- Converting monthly interest wrongly – 5% a month is **60% a year**, not 5% or 50%.
- Defining collateral as 'a document' – it is an **asset** (land, house, vehicle, livestock, deposits) pledged as a guarantee.
- In SHG answers, forgetting why banks agree to lend – the **group is responsible** for repayment.

HOW TO USE THIS BOOKLET

1. **Day 1:** Read the Chapter Notes twice; learn the key terms.
2. **Next day:** Parts A and B. **Then:** Parts C and D – MUST DO questions first.
3. Check every answer against the **Model Answer Booklet**: same points, same keywords, within the word limit.
4. Write every mistake on the My Mistakes page and redo it after 3 days.

A

PART A · NCERT PRACTICE

Textbook Check

Every section of the chapter and every NCERT exercise idea, asked in new words. Model answers for all of these are in the Model Answer Booklet.

Money

A1. What is meant by double coincidence of wants? Give an example. MUST DO [2]

A2. Why is money called a medium of exchange? [3]

A3. What are the modern forms of money? Why is the rupee accepted as money in India? MUST DO [3]

A4. What are demand deposits? Why are they considered money? [2]

A5. What is a cheque? How does it help in making payments? [2]

Banks and credit

A6. Explain the loan activities of banks. MUST DO [3]

A7. What is credit? [2]

A8. "Credit can make a borrower better off or worse off." Explain with two situations. MUST DO [3]

A9. What are the terms of credit? [3]

A10. What is collateral? Give examples. What can the lender do if the loan is not repaid? MUST DO [2]

Formal and informal credit

A11. Name the formal and informal sources of credit. Who supervises them? MUST DO [3]

A12. How does the RBI supervise the functioning of formal sources of loans? [3]

A13. Why do small farmers and the poor find it hard to get bank loans? MUST DO [2]

Cooperatives and SHGs

A14. What is a cooperative? How does it provide credit to its members? [3]

A15. What is a Self-Help Group? How does it work? MUST DO [3]

A16. Why is cheap and affordable credit important for a country's development? [2]

B

PART B · SECTION D STYLE

Objective Practice

All the MCQ types used in the board paper: definitions, short cases, calculations, statements, matching and assertion–reason.

ASSERTION–REASON: HOW TO ANSWER

(a) Both A and R are true, and R is the correct explanation of A.
(b) Both A and R are true, but R is not the correct explanation of A.
(c) A is true, but R is false.
(d) A is false, but R is true.

Multiple choice

1 mark each

B1. The problem of double coincidence of wants is removed by: [1]

(a) the use of money
(b) the barter system
(c) collateral
(d) a higher interest rate

B2. Who issues currency notes in India? [1]

(a) State Bank of India
(b) Reserve Bank of India
(c) Ministry of Commerce
(d) Commercial banks

B3. Deposits in bank accounts that can be withdrawn whenever needed are called: [1]

(a) fixed deposits (b) collateral (c) demand deposits (d) loans

B4. About what share of their deposits do banks in India keep as cash? [1]

(a) 50% (b) 35% (c) 25% (d) 15%

B5. The main source of income of banks is: [1]

(a) the difference between interest on loans and interest on deposits
(b) fees on cheques
(c) selling collateral
(d) grants from the government

B6. Which of these is a formal source of credit? [1]

(a) Moneylender
(b) Cooperative society
(c) Trader
(d) Relative

B7. Which of these can serve as collateral for a loan? [1]

(a) A promise to repay
(b) A cheque book
(c) Land papers
(d) A ration card

B8. Who supervises the functioning of formal sources of loans in India? [1]

(a) NABARD
(b) Ministry of Finance
(c) State governments
(d) Reserve Bank of India

B9. Sunita, a small farmer, borrows ₹10,000 from the village moneylender to sow cotton. Her loan is from: [1]

(a) an informal source
(b) a formal source
(c) a Self-Help Group
(d) a cooperative

B10. A moneylender charges 3% interest per month. The yearly rate is: [1]

(a) 3% (b) 36% (c) 30% (d) 12%

B11. In urban areas, which households depend most on informal sources of credit? [1]

(a) Rich households (b) Large companies
(c) Poor households (d) Government employees

B12. A typical Self-Help Group has: [1]

(a) 2–5 members (b) 5–10 members (c) 50–100 members (d) 15–20 members

B13. Why do banks hesitate to lend to small farmers? [1]

(a) They lack collateral and documents (b) They never need credit
(c) Banks charge no interest (d) Farmers cannot use cheques

B14. Read the statements: [1]
I. Informal lenders are supervised by the RBI.
II. Informal lenders usually charge much higher interest.
Choose the correct option.

(a) Only I is correct (b) Only II is correct
(c) Both are correct (d) Neither is correct

B15. Match and choose: [1]
(a) Collateral (b) Interest (c) Demand deposit (d) Debt trap
(i) money withdrawn any time (ii) asset pledged as guarantee (iii) borrower worse off after a loan (iv) extra paid with the principal

(a) a-iv, b-ii, c-i, d-iii (b) a-ii, b-i, c-iv, d-iii
(c) a-ii, b-iv, c-i, d-iii (d) a-iii, b-iv, c-i, d-ii

B16. Arjun borrows ₹1,00,000 from a bank at 10% simple interest a year for 2 years. The total amount he repays is: [1]

(a) ₹1,10,000 (b) ₹1,02,000 (c) ₹1,00,000 (d) ₹1,20,000

Assertion–Reason

1 mark each

B17. ASSERTION–REASON [1]
Assertion (A): Rich urban households take most of their loans from formal sources.
Reason (R): Banks demand collateral and documents, which rich households can provide.

B18. ASSERTION–REASON [1]
Assertion (A): Banks keep only a small part of their deposits as cash.
Reason (R): Banks pay interest on deposits.

B19. ASSERTION–REASON [1]
Assertion (A): Informal lenders are supervised by the RBI.
Reason (R): Informal lenders often charge very high interest.

B20. ASSERTION–REASON [1]
Assertion (A): Credit can push a borrower into a debt trap.
Reason (R): Credit is always repaid easily from the income it creates.

C

PART C · BOARD PATTERN

Board Pattern Practice

Written-answer questions grouped by topic. ★★★ = asked more than once in the papers read · ★★ = asked once or NCERT core · ★ = supporting topic.

Formal and informal credit

★★★ 2 of 2 papers · 1–3 marks

C1. Distinguish between formal and informal sources of credit. MUST DO [3]

C2. Why is it necessary to expand formal sources of credit in India? Explain. MUST DO [5]

C3. Why are poor households still largely dependent on informal sources of credit? MUST DO [3]

Credit and its terms

★★☆ NCERT core · 1–3 marks

C4. Explain the terms of credit with the example of a housing loan. [3]

C5. How can credit push a person into a debt trap? [3]

C6. Explain the role of the RBI in supervising formal credit. MUST DO [3]

Money and banks

★★☆ NCERT core · 1–3 marks

C7. How does money remove the problem of double coincidence of wants? [3]

C8. How do banks link those who save with those who need funds? [3]

Self-Help Groups and cooperatives

★★☆ 2025 32/1/1 · 4 marks

C9. Explain how Self-Help Groups help the rural poor, especially women. MUST DO [5]

C10. How do cooperatives provide credit to their members? [3]

C11. Why are banks willing to lend to SHGs but not to individual poor people? [3]

C12. Why is cheap and affordable credit crucial for development? [2]

PART D · CASE-BASED STYLE

D Case-Based Questions

D1 is a 5-mark data case (1 + 2 + 2). D2–D5 carry 4 marks each (1 + 1 + 2), like the 2025 source-based question on cooperatives.

D1. Case-Based · Who Borrows Where? [5]

The table gives imaginary data on where two groups of urban households take their loans.

Source of loan	Poor urban households (%)	Rich urban households (%)
Banks	12	72
Cooperatives	8	18
Moneylenders	46	3
Relatives and friends	22	5
Traders and employers	12	2

(i) What percentage of the poor households' loans come from formal sources? [1]

(ii) Why do rich households get most of their loans from formal sources while poor households do not? Two points. [2]

(iii) Suggest two steps to change this pattern. [2]

D2. Case-Based · The Uniform Order [4]

Farida runs a small tailoring unit. A school orders 500 uniforms, to be delivered in a month. She does not have enough money, so the cloth trader supplies cloth on credit and she pays her workers with a small advance from the school. She delivers on time, makes a profit and clears her dues.

(i) What helped Farida complete the order? [1]

(ii) Is the cloth trader a formal or an informal source of credit? [1]

(iii) Explain two ways credit helped her. [2]

D3. Case-Based · The Failed Crop [4]

Gopal, a small farmer, borrows from the village moneylender at 4% interest per month to grow soybean. Heavy rain destroys the crop. To repay, he takes a second loan, and the next year he has to sell part of his land.

(i) What is the yearly rate of interest on Gopal's loan? [1]

(ii) What situation is Gopal caught in? [1]

(iii) Why is credit from formal sources better for farmers like Gopal? Two points. [2]

D4. Case-Based · The Village Cooperative [4]

A farmers' cooperative in a village of Madhya Pradesh has 1,800 members. It accepts deposits from them and, using these deposits as collateral, has taken a large loan from a bank. It lends to members for tractors, seeds, fish ponds and houses.

(i) What does the cooperative use as collateral for its bank loan? [1]

(ii) Is a cooperative a formal or an informal source of credit? [1]

(iii) Give two benefits members get from the cooperative. [2]

D5. Case-Based · Saving Together [4]

Eighteen women of a village each save ₹100 a month in their group. After two years of regular saving, a bank gives the group a loan in its own name. Members buy sewing machines and a buffalo, and in meetings they also talk about their children's health.

(i) How much does the group save in a month? [1]

(ii) Why did the bank agree to lend without collateral? [1]

(iii) Give two ways the group has changed the women's lives. [2]

PART E · REAL BOARD QUESTIONS

E Board PYQ Index

Real questions from recent Social Science board papers, by topic. Open the official paper and attempt the listed questions.

Frequency	Topic	Marks	Where asked (year: paper code, question number)	Practise here
★★★	**Formal and informal sources of credit**	1–3	**2026:** 32/1/1 Q31 (a small farmer's source of loan); Q36 (3 marks, formal vs informal) · **2025:** 32/1/1 Q19 (who relies on informal credit in cities)	A11–A13, B6, B9, B11, B14, B17, B19, C1–C3, D1, D3
★★☆	**Why bank loans are hard for small farmers – collateral, documents**	1	**2025:** 32/1/1 Q18	A9–A10, A13, B7, B13, C3–C4
★★☆	**Cooperatives as a source of credit**	4	**2025:** 32/1/1 Q36 (source-based, 4 marks)	A14, C10, D4
★★☆	**Terms of credit; debt trap**	1–3	Not asked in the papers read – NCERT core.	A7–A10, B10, B15–B16, B20, C4–C5, D2–D3
★★☆	**Self-Help Groups**	3–5	Not asked in the papers read – NCERT core.	A15, B12, C9, C11, D5
★★☆	**Money, demand deposits, banks and the RBI**	1–3	Not asked in the papers read – NCERT core.	A1–A6, A16, B1–B5, B8, B18, C6–C8, C12

Papers read in full for this chapter (2): 2026 – 32/1/1 · 2025 – 32/1/1. The chapter gave 4 marks in 2026 and 6 marks in 2025. Download official papers from cbse.gov.in → Previous Year Question Papers.

PART F · YOUR RECORD

F My Mistakes

Write down each mistake from this chapter, including the Sunday Chapter Test.

Every wrong answer is a free lesson. Write it here, find the point you missed, and redo the question after three days.

Date	Part & Q No.	What went wrong	Correct point or fact	Redone ✓