

9th Social Science Lesson 11 Notes in English

11. Money and Credit

'பொருளல்லவரைப் பொருளாகச் செய்யும்
பொருளல்லது இல்லை பொருள்'
(Money adds value to people)

- Almost all things used by man have a monetary value. In addition to that, the pay given for labour, wages and services are all fixed on the basis of money.
- The taxes and duties are also paid in the form of money. We would have seen our parents planning the expenses at our home every month.
- The **monthly income, pending expenditure, savings, payment of interest etc.**, are all measured in terms of money. Not only at homes, but also the budgets of a country or states are also framed on the basis of money.
- The Government, as well as, private institutions and industries calculate their financial status through money. Thus, money plays a predominant and inseparable role in all our lives.

'ஆகாறு அளவிட்டி தாயினும் கேடில்லை
போகாறு அகலாக் கடை'
(Expenditure should not exceed income says Thiruvalluvar)

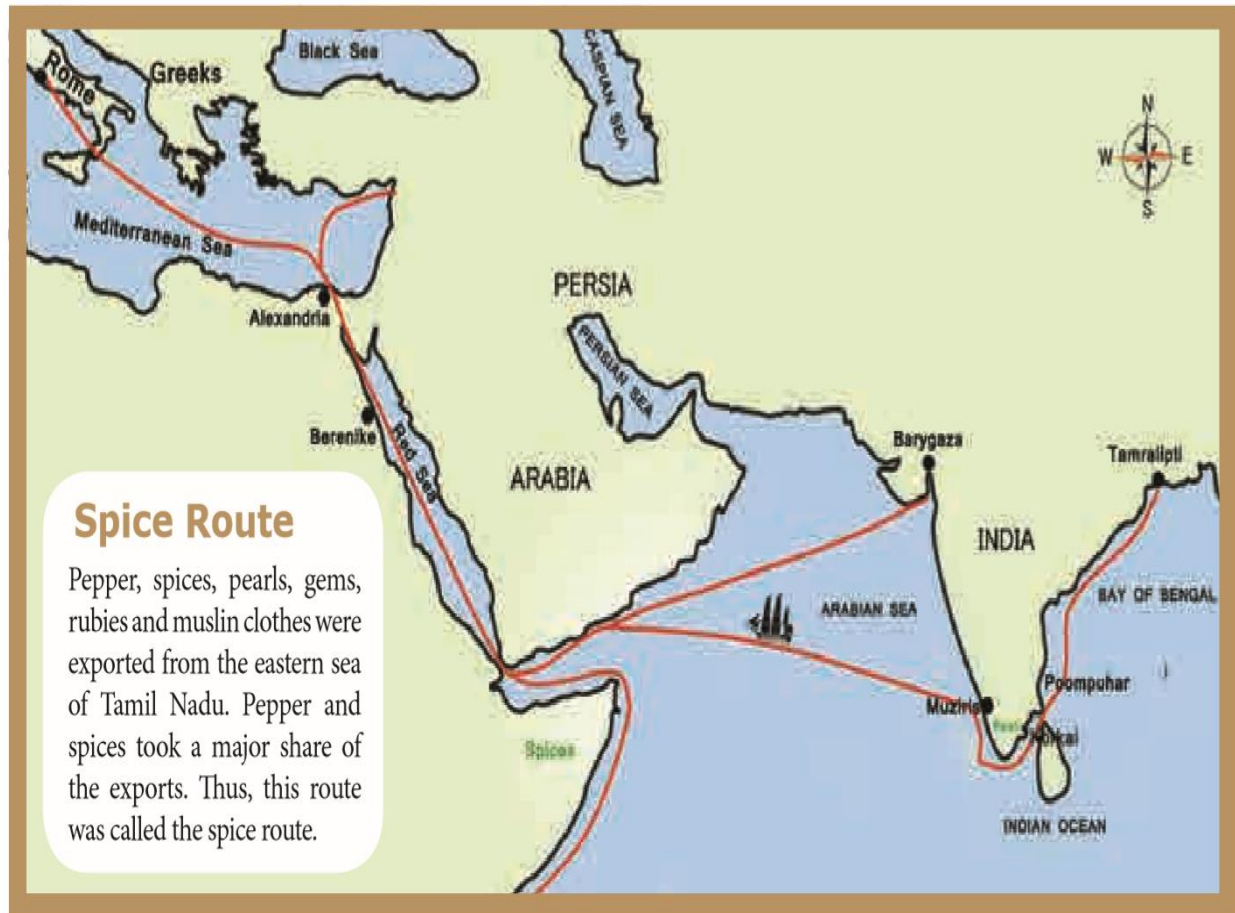
Barter System

- Ancient man hunted and gathered food. He lived in caves and forests. In later stages, he **invented weapons for hunting and gathering food.**
- Later, he invented fire and learnt to practise agriculture. He used mud to build houses and settle down in a place and also to make earthenware.
- When the agricultural yield was high, they made handicrafts. When there was surplus in agricultural produce and other articles like **earthenware, they exchanged it with people who needed them.**
- For example, **if a community had excess food stuff, they would exchange that with those who had excess pots.**
- Likewise, when a particular grain grew in abundance in a region, it was exchanged for a different crop in another region.
- These articles which were exchanged through barter system can be termed as the first form of trade.

Coins



- The barter system flourished wherever civilizations thrived. This system was active not only within a civilization, but also among civilizations.
- This was the initial form of international trade. During archaeological excavations in **Egypt and Iraq (Mesopotamia)**, articles used during the Indus valley civilization were excavated.
- As years went by, there were issues found in barter system. For example there were problems in the exchanging needed goods.
- A person who had paddy was in need of earthenware for instance. But, the person who had pots and other utensils was not in need of paddy.
- Thus, the needs of many people were not fulfilled. Measuring the quantity and value of the goods exchanged were found very difficult.
- To solve these issues, they fixed a common item with a **standard value, for the effective exchange of goods**.
- It was usually in the form of some metal. Metals were rare to find and could be maintained for a long time and never lost their value.
- Hence, the metals can be termed as the first form of money. These may be the reasons why metals were chosen.
- **Gold, silver and copper** were the metals used first. They were called ancient currency. Leather, beads, shells, tobacco, salt, corn and even slaves were exchanged as barter, says economists.
- The later Cholas allowed the traders to have their own army.
- Historical evidences state that during this period, small traders and producers gave credit to the Tamil traders to support their export needs.



Natural Money

- The metals such as silver and gold gained importance gradually all over the world.
- So, these metals were used as standard value in the exchange of goods. This was called as natural money.

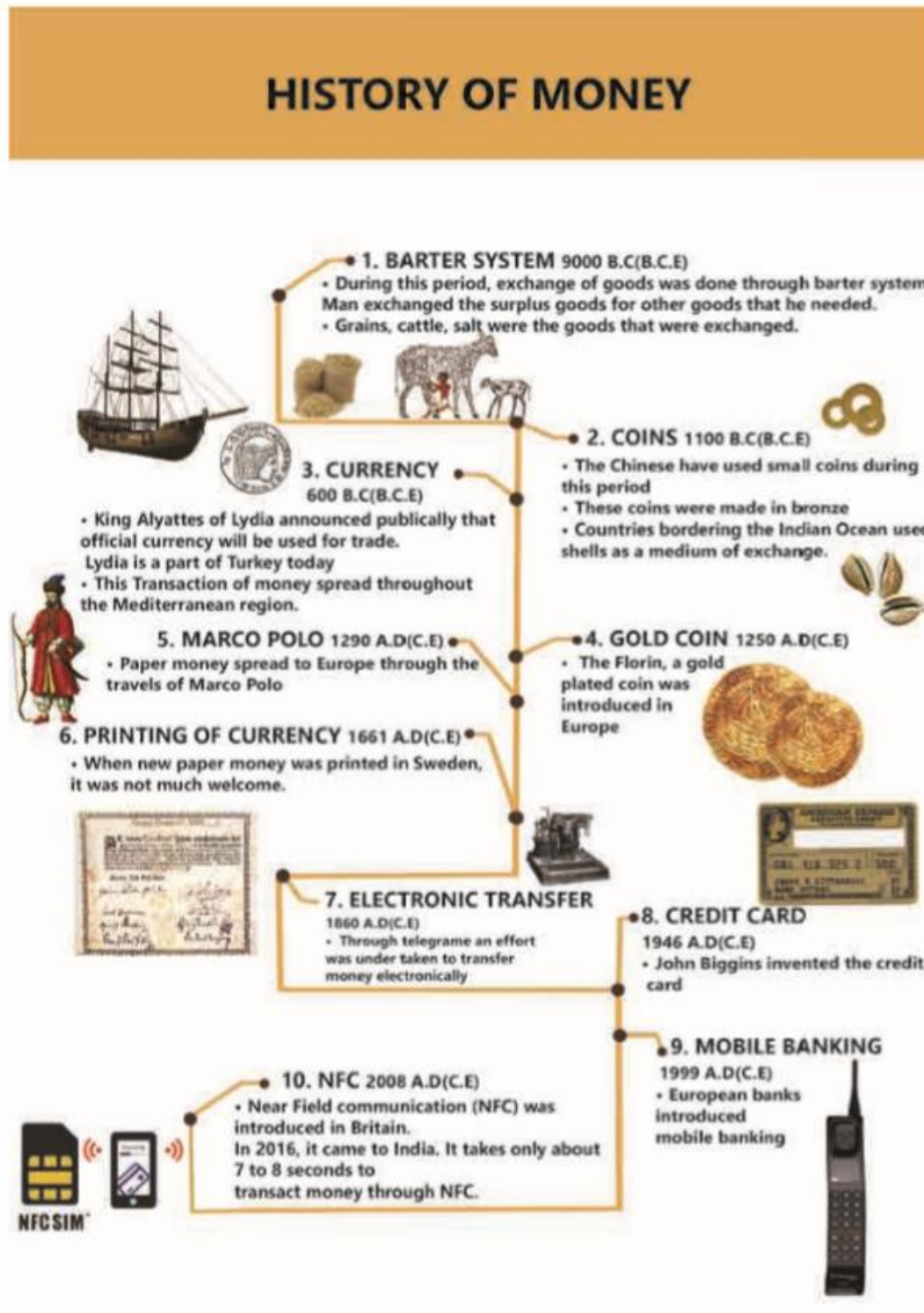
Paper Money

சலத்தால் பொருள்செய்தே மார்த்தல் பசுமட்க
லத்துள்நீர் பெய்திரீஇ யற்று

‘The wealth stored through immoral ways will
disappear as water kept in an unburnt pot’

- As days went by, issues arose because while trade prospered, there were insufficient reserves of gold and silver.
- Mines also had a limited reserve of these metals. An alternative was found and coins were made using metals with lesser value.
- These were used to buy and sell goods of lesser value. It was used as the money of the poor people. Hence these coins were printed in large numbers.

- Paper money came into being as the next stage. This money was without form and people started saving in banks.
- The **Great Economic Depression** was also prompted the saving habit of the people.
- Money has become an inseparable part of everyone's life today. It has changed its form in the economic front. Money transactions are done through many ways in the electronic world



Electronic Transactions

- One has to visit the bank and fill in a challan or produce a cheque to withdraw money from his account. Now this practice is gradually vanishing.

- Instead, one can easily withdraw the necessary amount from an **Automated Teller Machine (ATM)**, with the help of an ATM debit card. One can easily withdraw the money needed at any time at ATMs located everywhere.
- A person can deposit money in their account without visiting the branch.
- Similarly, credit cards are also available, through which things are bought on credit and the amount can be paid later.
- Nowadays, instead of **using cheques or Demand Drafts (DDs)**, **online transactions through net banking are carried out.**
- Through this, money is transacted to anyone who lives anywhere across the globe.
- Technology has advanced so much that even mobile banking is widely used nowadays.

Role of the Reserve: Bank of India

- A government has the responsibility to regulate money supply and oversee the monetary policy.
- Hoarding of money must be avoided at all costs in a country's economy. Only then money can be saved in banks.
- A major portion of the savings in banks are used for the development of industries, economic growth and various development schemes for the welfare of the poor.
- All the major and **important banks were nationalised (1969)** in India.
- The Reserve Bank of India (RBI) regulates the circulation of currency in India. The Reserve Bank of India started its operations on **1st April 1935**.
- It was permanently moved to Mumbai from the year **1937**. RBI was **nationalized in 1949**.
- **85%** of the printed currency is let for circulation. According to the statistics available as on August 2018, currency worth of **19 lakh crore** are in circulation.

Relationship between Money and Prices

- There is a close relationship between volume of circulation money and the price of things.
- 90% of the products are manufactured with the main aim of sales or meant for services. Growing crops and production are done on a commercial basis, rather than on a subsistence level.
- This phenomenon also increased the importance of the market and money. The relationship between money and price is connected with the Monetary policy.
- There is a close relationship between the growth of money supply and inflation. Price controls play a very important role in a country's economic stability.
- This role is played by the Central Bank of our country, RBI in India. Currency is the medium of exchange in a country.
- The Indian currency is called the **Indian Rupee (INR)**. In a country the foreign currency is called foreign exchange.
- Purchasing capacity of all currencies in the world are compared using the US dollar as the standard currency.

- This value differs from country to country. **Most of the international trade transactions are carried out in US dollar.**

Functions of Money

When money replaced the barter system, a lot of practical issues were solved. **Money acts a medium of exchange**, a unit of measurement, a store of value and a standard of deferred payments. It plays an important role in transactions.

Foreign exchange rate equivalent to US Dollars		
Country	Currency	Equivalent Value for 1 US Dollar (July 2018)
India	Rupee	68.72 rupees
England	Pound	0.76 pound
European Union	Euro	1.14 euro
Canada	Dollar	1.31 dollar
Japan	Yen	111.15 yen
China	Yuan	6.76 yuan
Saudi Arabia	Riyal	3.75 riyal
Australia	Dollar	1.35 dollar
Malaysia	Ringgit	4.05 ringgit
Pakistan	Rupee	124.2 rupees
SriLanka	Rupee	159.8 rupees



Medium of Exchange

Money should be accepted liberally in exchange of goods and services in a country.

Unit of Account

Money should be the common, standard unit of calculating a country's total consumer goods, products, services etc. For example, if a book costs ` 50, it means that the price of the book is equal to 50 units of money. **Money is used to measure and record financial transactions in a country.**

A Store of Value

Money is used as a store of purchasing power. It can be used to finance future payments.

Credit

Farmers avail credit during monsoons for **buying seeds, agricultural input and other expenses. Traders and small entrepreneurs need credit for their needs.** Even large industries receive credit to take up their new projects.

Credit is available from:

- Formal financial institutions like nationalised and private banks and cooperative banks
- Informal financial institutions
- Micro credit is received through Self Help Groups (SHG) As far as nationalised banks and cooperative banks are concerned the interest to credit is comparatively lesser and there is guarantee for the pledged, goods.

Informal Financial Institutions

Tamil Nadu - Banking Statistics

Banking Activities (April 2017- March 2018)	Rupees (approximately)
Deposits Received	7.17 lakh crore
Loans sanctioned	7.84 lakh crore
Loans to Micro & Small enterprises	1.40 lakh crore
Priority Sector Loans including Agriculture	3.56 lakh crore
Loans to weaker section	1.04 lakh crore
Education Loan	1.67 lakh crore
Credit Deposit Ratio	109.34%

Source - Report of 154th state level Bankers Committee Meeting - 2018

- Informal financial institutions are easily approachable to the customers with flexible procedures.
- But there are issues like the safety of items pledged high rates of interest and modes of recovery.
- People who live in a particular place or those who are involved in a certain work join together as a group and start saving. These are called as Self Help Groups.
- The nationalised banks provide help to these groups through micro-credit.
- Credit given through Self Help Groups for **street vendors, fishermen, especially women and the poor really make a difference in their life.**
- In Tamil Nadu, all the banks have **10,612 branches, across the state** They carry on a total transaction of around **15 lakh crore rupees during the financial year (2017-2018).**

More to Know:**1. Money supply is divided into four:**

- M1 = Currency held with the public + cash Reserves in commercial and Cooperative banks + cash reserves in the RBI.
- M2 = M1 + Money saved in Post office and bank savings Accounts
- M3 = M1 + Time Deposits in Commercial and co-operative banks
- M4 = M3 + Post office savings Money

2. How is currency printed in India?

- One rupee and two rupee notes were first printed in India in the year **1917**. The Reserve Bank of India is empowered to issue the **Government of India notes since 1935**.
- 500 rupee note currency was introduced later. In **1940, one Rupee notes were issued again**.
- Till 1947, the currency notes with the image of **King George VI** were in circulation. After Independence, the Government of India issued currency notes.
- In **1925**, the British government established a government press at Nasik in Maharashtra.
- Currencies were printed three years later. In 1974, a press was started in **Dewas, Madhya Pradesh**. (Security Printing and Minting Corporation of India Ltd.)
- In the 1990s two more presses were started in **Mysuru, Karnataka and Salboni in West Bengal to print bank notes**.
- The Reserve Bank of India has the authority to decide the value of currency to be printed and how the amount should reach its destination safely. Around ten thousand workers are employed here.
- Countries like **Sri Lanka, Bhutan, Iraq and Africa** have drawn contracts for printing their currencies and sent to the respective countries.
- Though the RBI has the power to print up to ten thousand rupee notes, at present a maximum of upto rupees two thousand is printed.

3. Educational Loans

- Educational loan attempts to meet the educational aspirations of the society.
- A student is the main borrower.
- A parent, spouse or sibling can be the co-applicant.
- It is offered to students who want to pursue higher education in India or overseas.
- It can be taken for a full time, part – time or vocational course and Graduation or Post Graduation.
- There is no security required for the loan amount up to **4 lakhs**
- The loan is repaid by the student generally after the employment.
- Students can apply through **"Vidya Lakshmi Portal Education Loan Scheme"**. (<https://www.vidyalakshmi.co.in/>)

4. Dr. B.R. Ambedkar's Ph.D.thesis on **'The Problem of the Rupee - Its origin and solution'** was the reference tool and provided guidelines for the Reserve Bank of India Act of 1934.
5. Money, i.e. paper currency is a value. Money is recognized as a standard record for the payment of a thing or service. Using this currency, people can purchase things, pay taxes and repay debts. In the currency of India, I promise to pay the bearer the sum of rupees is printed as the assurance given by the governor of the Reserve Bank of India, with his signature. Similarly, the signature and the promise given by the highest official are found in currencies of all countries.
6. During his **rule (1540-1546) Sher Shah Suri** set up a new civic and military administration and issued a coin of silver weighing **178 grams**, which was termed the Rupiya. The silver coin remained in use during the Mughal period, the Maratha era and in British India as well.