Class 10 Economics Chapter 3: Money and Credit - Notes, Important Questions and MCQs (2026-27)

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These Money and Credit Class 10 notes cover Class 10 Economics Chapter 3 completely as per the 2026-27 NCERT book: money as a medium of exchange and the double coincidence of wants, modern forms of money (currency and deposits with banks, cheques and digital payments), loan activities of banks, two different credit situations, terms of credit, variety of credit arrangements, formal and informal credit, self-help groups for the poor and the Grameen Bank of Bangladesh.

You also get the 2019 rural credit sources data, formal vs informal comparison, terms of credit table, case studies, NCERT-style questions with answers, 10 MCQs and a free PDF with no signup.

Use the table of contents below to jump to the part you need, or read top to bottom for a complete revision of the chapter.

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Chapter Overview

Money is used in a large part of everyday life to buy and sell goods and services. It acts as an intermediate in the exchange process, removing the need for a double coincidence of wants.

The chapter explains modern forms of money and how banks use deposits to give loans, and then focuses on credit: how it can help or trap borrowers, the terms on which it is given, its

Important Topics and Concepts

Money as a medium of exchange

- A person holding money can exchange it for any commodity or service, so everyone prefers to receive payment in money.
- In a barter system, where goods are directly exchanged without money, a double coincidence of wants is needed: what one person wants to sell is exactly what the other wishes to buy. Example: a shoe manufacturer wanting wheat must find a wheat farmer who wants shoes.
- Money acts as an intermediate in exchange and is called a medium of exchange, eliminating the need for double coincidence of wants.

Modern forms of money

- Before coins, grains and cattle were used as money; later metallic coins of gold, silver and copper were used.
- Modern money includes paper notes and coins. Unlike gold or silver, it has no use of its own; it is accepted as a medium of exchange because it is authorised by the government.
- In India, the Reserve Bank of India issues currency notes on behalf of the central government. As per law, no other individual or organisation can issue currency, and the rupee must be accepted as a medium of payment in India.

Deposits with banks

- People deposit extra cash with banks by opening accounts. Banks accept deposits and pay interest on them.
- Demand deposits can be withdrawn on demand, so they share the essential features of money.
- Payments can be made by cheque: a paper instructing the bank to pay a specific amount from the account holder’s account to the person named in it. Thus demand deposits are a form of money in the modern economy.
- Banks work as intermediaries between depositors, who have surplus funds, and borrowers, who need funds.

Demonetisation and digital payments

- In November 2016, Rs 500 and Rs 1,000 currency notes were declared invalid in India; people surrendered them to banks for new notes. This is called demonetisation.
- Since then, people have been encouraged to use bank deposits rather than cash: bank-to-bank transfers through internet or mobile phones, cheques, ATM cards, credit cards, Point of Sale (POS) machines and QR codes through UPI.
- Digital transactions reduce the need for cash and help control corruption. Different plastic cards are used in place of cash, but not all of them are money as such.

Loan activities of banks

- Banks keep only a small proportion of their deposits as cash, around 15 per cent in India, to pay depositors who come to withdraw money on a given day.

- They use the major portion of deposits to extend loans, since only a few depositors withdraw at a time.
- Banks charge a higher interest rate on loans than they pay on deposits; the difference is their main source of income.

Two different credit situations

- Credit (loan) is an agreement in which the lender supplies the borrower with money, goods or services in return for a promise of future payment.
- Salim: a shoe manufacturer gets a large order before festivals. He takes raw materials on credit from suppliers and an advance from a large trader, completes the order on time, earns a profit and repays the loan. Credit helped him increase earnings and become better off.
- Swapna: a small farmer borrows from a moneylender for cultivation, hoping to repay after harvest. Her crop fails due to pests, so she cannot repay; the debt grows and she has to sell part of her land. Credit pushed her into a debt trap.
- In rural areas, crop production needs credit for seeds, fertilisers, pesticides, water, electricity and equipment; whether credit is useful depends on the risks and the support available in case of loss.

Terms of credit

- Every loan agreement specifies an interest rate that the borrower must pay along with the principal.
- Lenders may demand collateral: an asset the borrower owns, such as land, a building, a vehicle, livestock or bank deposits, used as a guarantee until the loan is repaid. If the borrower fails to repay, the lender can sell the collateral.
- Interest rate, collateral, documentation requirements and the mode of repayment together are called the terms of credit; they vary with the lender and the borrower.
- Megha’s house loan: Rs 5 lakh from a bank at 12 per cent annual interest, repayable in 10 years in monthly instalments; she submitted employment and salary records, and the bank kept the house papers as collateral until full repayment.

Variety of credit arrangements: Sonpur village

- Shyamal, a small farmer with 1.5 acres, borrows from the village moneylender at 5 per cent per month (60 per cent a year) and must sell his crop to the trader at a low price.
- Arun has 7 acres and took a bank loan at 8.5 per cent per annum, repayable in three years, against documents of his land; he can repay comfortably after harvest.
- Rama, an agricultural labourer, depends on her landowner employer for credit at 5 per cent per month, works for him to repay and remains in debt, as she has no land to offer as collateral.
- Krishak Cooperative in Sonpur has 2,300 members; it accepts deposits, uses them as collateral to get a large bank loan and lends to members for implements, cultivation, trade, fishery, house construction and other expenses.

Formal and informal sector credit

- Formal sector loans come from banks and cooperatives; informal lenders include moneylenders, traders, employers, relatives and friends.

- The Reserve Bank of India supervises formal lenders: it checks that banks maintain a minimum cash balance and that they give loans not only to profit-making businesses and traders but also to small cultivators, small-scale industries and small borrowers. Banks must submit information to the RBI on how much they lend, to whom and at what interest rate.
- There is no organisation that supervises informal lenders. They lend at any interest rate and may use unfair means to recover money.
- Informal lenders charge much higher interest, so a larger part of the borrower's earnings goes into repayment and the borrower is left with less income; high interest can lead to increasing debt and a debt trap and discourages people from starting enterprises.
- Therefore banks and cooperatives need to lend more. Cheap and affordable credit is crucial for the country's development.

Who gets what? Rich and poor borrowers

- Sources of credit in rural India, 2019: commercial banks 51%, moneylenders 23%, cooperative banks and societies 10%, relatives and friends 7%, other formal agencies 5%, other informal agencies 3%, landlords 1%.
- In urban areas, 54 per cent of loans taken by poor households come from informal sources, while rich households take only 17 per cent from informal and 83 per cent from formal sources. A similar pattern exists in rural areas.
- So the formal sector meets only about half of rural credit needs, and the rich get cheap formal credit while the poor pay heavily for informal credit.
- It is essential to increase formal credit and give the poor a much greater share of formal loans.

Self-help groups for the poor

- Banks are often unwilling to lend to the poor because they lack collateral and documents, and moneylenders know them personally and lend without collateral at very high interest.
- Self-help groups (SHGs) organise rural poor, especially women, into small groups of 15–20 members, usually from one neighbourhood, who meet and save regularly (Rs 25 to Rs 100 or more per month).
- Members can take small loans from the group at a reasonable interest rate, lower than the moneylender's.
- After a year or two, if the group saves regularly, it becomes eligible for a bank loan sanctioned in the group's name for self-employment, such as releasing mortgaged land, buying seeds, fertilisers, cloth, sewing machines, handlooms or cattle.
- Most decisions on savings and loans are taken by group members, and the group is responsible for repayment; peer pressure ensures repayment.
- SHGs solve the problem of lack of collateral, give timely loans at reasonable rates, help women become financially self-reliant, and provide a platform to discuss health, nutrition, domestic violence and other social issues.

Grameen Bank of Bangladesh

- Grameen Bank is one of the biggest success stories in reaching the poor with credit at reasonable rates.
- Started in the 1970s as a small project, by 2018 it had over 9 million members in about 81,600 villages across Bangladesh.

- Almost all of its borrowers are women from poor sections of society, who have proved reliable borrowers and have started small income-generating activities.
- Professor Muhammad Yunus, its founder, received the Nobel Peace Prize in 2006. He said that if credit is made available to the poor on appropriate and reasonable terms, their millions of small pursuits can add up to create the biggest development wonder.

Terms of Credit: Bank vs Moneylender

A favourite comparison question.

Term	Bank (formal)	Moneylender (informal)
Interest rate	Low (e.g. 8.5% per year for Arun)	Very high (e.g. 5% per month = 60% per year)
Collateral	Usually required	Often not required; lender knows borrower
Documentation	Required (employment, land records)	Little or none
Mode of repayment	Fixed instalments over time	Flexible but may involve labour or selling crop cheaply
Supervision	Supervised by RBI	No supervising authority

Sources of Credit in Rural India, 2019

From the All India Debt and Investment Survey (NSO).

Source	Share
Commercial banks	51%
Moneylenders	23%
Cooperative banks and societies	10%
Relatives and friends	7%
Other formal agencies	5%
Other informal agencies	3%
Landlords	1%

Case Studies at a Glance

Quick revision of NCERT cases.

- Salim: credit helped increase earnings (positive).
- Swapna: crop failure led to a debt trap and sale of land (negative).
- Megha: bank house loan with collateral and documents.
- Shyamal: moneylender at 5% a month; must sell crop to trader.
- Arun: bank loan at 8.5% a year against land documents.
- Rama: landless labourer in debt to her employer.
- Krishak Cooperative: 2,300 members; lends for many purposes.

Formal vs Informal Sources of Credit

Basis	Formal sources	Informal sources
Lenders	Banks and cooperatives	Moneylenders, traders, employers, relatives and friends
Supervision	Supervised by the RBI	No supervising organisation
Interest rate	Lower	Much higher
Collateral and documents	Usually required	Often not required
Purpose	Development-oriented, includes small borrowers by RBI rules	Profit-driven; may use unfair means
Main users	Mostly rich households (83% of their loans in urban areas)	Mostly poor households (54% of their loans in urban areas)

Important Definitions and Terms

Term	Meaning
Barter system	Direct exchange of goods without money
Double coincidence of wants	What one person wants to sell is exactly what the other wishes to buy
Medium of exchange	Something, like money, that acts as an intermediate in exchange
Currency	Paper notes and coins issued by the RBI on behalf of the government
Demand deposits	Bank deposits that can be withdrawn on demand
Cheque	A paper instructing a bank to pay a specific amount to a named person
Demonetisation	Declaring certain currency notes invalid (Rs 500 and Rs 1,000 in November 2016)
Credit	An agreement in which a lender gives money, goods or services for a promise of future payment
Debt trap	Situation where a borrower cannot repay and debt keeps increasing
Collateral	An asset the borrower owns, used as a guarantee for a loan
Terms of credit	Interest rate, collateral, documentation and mode of repayment
Formal sector credit	Loans from banks and cooperatives
Informal sector credit	Loans from moneylenders, traders, employers, relatives and friends
Self-help group	Group of 15–20 poor people, mostly women, who save and lend together

Short Answer Questions

Q1. How does money solve the problem of double coincidence of wants?

Money acts as a medium of exchange. A person can sell goods for money and use the money to buy what he wants, so there is no need to find someone who both has what he wants and wants what he has.

Q2. Why are demand deposits considered money?

Q3. Why do banks keep only a part of deposits as cash?

Only a few depositors withdraw money on any day, so banks keep about 15 per cent as cash and use the rest to give loans, earning interest that is higher than what they pay on deposits.

Q4. In what ways does the RBI supervise banks?

The RBI checks that banks maintain a minimum cash balance and that they lend not only to profitable businesses but also to small cultivators, small industries and small borrowers. Banks must report how much they lend, to whom and at what interest rate.

Q5. What is collateral and why do lenders ask for it?

Collateral is an asset the borrower owns, such as land, a house or livestock, used as a guarantee. If the borrower fails to repay, the lender can sell it to recover the loan.

Q6. Why do lenders ask for collateral while lending, and why is it a problem for the poor?

Collateral reduces the lender’s risk. But poor people often have no assets to offer, so they cannot get bank loans and must depend on informal lenders at high interest.

Q7. Why is cheap and affordable credit important for the country’s development?

It lets people grow crops, do business, set up small industries and trade without losing most of their earnings to interest. This raises incomes and helps more people participate in development.

Q8. What are the benefits of self-help groups?

SHGs help the poor get loans without collateral at reasonable rates, provide timely credit for self-employment, make women financially self-reliant and provide a platform to discuss social issues like health and domestic violence.

Long Answer Questions

Q1. Analyse the role of credit for development, with examples.

Credit helps people meet working capital needs, increase production and earnings, as in Salim’s case.

It allows farmers to buy seeds, fertilisers and equipment and grow crops.

But if risks are high, as in Swapna’s case of crop failure, credit can push borrowers into a debt trap.

The terms of credit, especially interest rate and collateral, decide whether credit helps or harms.

Cheap formal credit from banks and cooperatives helps development, while costly informal credit reduces incomes.

So expanding cheap formal credit, especially to the poor, is crucial for development.

Q2. Why should formal credit be expanded and made available to the poor?

Informal lenders charge very high interest, so borrowers lose a large part of their income and

There is no supervision of informal lenders, who may use unfair means.

Formal credit meets only about half of rural credit needs; in rural India (2019), banks gave 51% and moneylenders 23%.

Rich households get most of their loans from formal sources (83% in urban areas), while poor households depend on informal sources (54%).

More formal credit at reasonable rates would let the poor invest in farming and business and raise incomes.

SHGs and models like the Grameen Bank show the poor can be reliable borrowers.

Q3. Explain how self-help groups work. How has the Grameen Bank helped the poor?

SHGs have 15–20 members, mostly women from one neighbourhood, who save regularly.

Members get small loans from group savings at lower interest than moneylenders.

After a year or two of regular saving, the group gets a bank loan for self-employment activities.

The group decides on loans and is jointly responsible for repayment, so collateral is not needed.

Grameen Bank of Bangladesh, started in the 1970s, had over 9 million members in about 81,600 villages by 2018, mostly poor women who proved reliable borrowers.

Its founder Muhammad Yunus won the 2006 Nobel Peace Prize.

MCQs with Answers

1. Money acts as a medium of exchange because it eliminates the need for(a) Banks (b) Double coincidence of wants (c) Credit (d) CollateralAnswer: (b) Double coincidence of wants

2. Who issues currency notes in India on behalf of the central government?(a) State Bank of India (b) Reserve Bank of India (c) Ministry of Finance (d) NABARDAnswer: (b) Reserve Bank of India

3. Demonetisation of Rs 500 and Rs 1,000 notes took place in(a) November 2014 (b) November 2016 (c) March 2017 (d) January 2019Answer: (b) November 2016

4. Banks in India hold about what share of their deposits as cash?(a) 5 per cent (b) 15 per cent (c) 35 per cent (d) 50 per centAnswer: (b) 15 per cent

5. Which is not a term of credit?(a) Interest rate (b) Collateral (c) Mode of repayment (d) DemonetisationAnswer: (d) Demonetisation

6. Which is a formal source of credit?(a) Moneylender (b) Trader (c) Cooperative society (d) RelativeAnswer: (c) Cooperative society

7. In rural India (2019), commercial banks provided what share of credit?(a) 23 per cent (b) 33 per cent (c) 51 per cent (d) 60 per centAnswer: (c) 51 per cent

8. A typical self-help group has how many members?(a) 5–10 (b) 15–20 (c) 30–40 (d) 50–100Answer: (b) 15–20

9. The founder of Grameen Bank is(a) Amartya Sen (b) Muhammad Yunus (c) Raghuram Rajan

10. Which of these supervises the functioning of formal sources of loans?(a) NITI Aayog (b) RBI (c) SEBI (d) Finance CommissionAnswer: (b) RBI

Quick Revision Points

- Barter needs double coincidence of wants; money is a medium of exchange.
- Modern money: currency (RBI, authorised by government) and demand deposits (cheques, digital).
- Demonetisation: November 2016; push for UPI, cards, POS, QR codes.
- Banks keep ~15% as cash; lend the rest; interest difference is income.
- Credit can help (Salim) or trap (Swapna).
- Terms of credit: interest, collateral, documentation, repayment (Megha’s loan).
- Sonpur: Shyamal (5% per month), Arun (8.5% per year bank loan), Rama (landowner), Krishak Cooperative (2,300 members).
- Formal (banks, cooperatives; RBI-supervised) vs informal (moneylenders, traders, relatives).
- Rural 2019: banks 51%, moneylenders 23%, cooperatives 10%.
- Urban poor 54% informal; rich 17% informal, 83% formal.
- SHGs: 15–20 members; savings, loans, bank linkage, no collateral.
- Grameen Bank: 9 million members, 81,600 villages (2018); Yunus Nobel 2006.

Chapter Summary

Money is a medium of exchange that removes the need for double coincidence of wants. Modern money includes currency issued by the RBI and demand deposits with banks, used through cheques and digital payments, especially after demonetisation in 2016. Banks keep a small share of deposits as cash and lend the rest, earning interest.

Credit can help borrowers increase earnings or push them into a debt trap, depending on risk and the terms of credit: interest rate, collateral, documentation and repayment. Formal credit from banks and cooperatives is cheaper and supervised by the RBI, but the poor depend heavily on costly informal lenders. Expanding formal credit to the poor through self-help groups and models like the Grameen Bank is crucial for development.

Exam Tips and PYQ Pattern

- Learn the formal vs informal comparison and the terms of credit; both are asked every year.
- Remember the 2019 rural credit data and the 54% vs 17% urban figures.
- Case-based questions often use Salim, Swapna, Megha or Sonpur examples.
- Explain SHGs step by step in long answers.
- Include demonetisation and digital payments in answers on modern forms of money.

Frequently Asked Questions

What is double coincidence of wants?

What are the terms of credit?

Interest rate, collateral, documentation requirements and the mode of repayment.

Why is formal credit better than informal credit?

It has lower interest rates and is supervised by the RBI, while informal lenders charge high interest and are unregulated.

Is Money and Credit in the 2026-27 syllabus?

Yes. It is Chapter 3 of Understanding Economic Development for 2026-27.

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Yes. Use the free PDF link at the top of this page. No signup is required.

Conclusion

Money and Credit shows how money makes exchange easy and how fair, affordable credit can transform the lives of the poor. Revise the comparison tables, the credit data and the SHG process to answer every question confidently.

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Author Bio: Written and reviewed by the Nextoper Editorial Team, a group of CBSE social science educators who build chapter notes directly from the NCERT textbook and past board paper patterns.

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