

Money and Banking

Trading without Money

Mohan has come with *ragi* to Shyamala to buy mangoes. Shyamala made two equal heaps of the *ragi*. She gave Mohan a few mangoes that together weighed as much as one of *ragi* heap. Mohan took the mangoes home and Shyamala kept both the heaps of *ragi*. The rate at which the mangoes was exchanged is – ‘half as much as the grain’. There can be other rates too, such as ‘equal to the grain’.

In some villages of Srikakulam district children exchange toys made from bamboo

in exchange for rice. This system of exchanging goods directly against each other without the use of money is called the Barter system.

The blacksmiths used to mend the blades of ploughs or wheels of a bullock cart not for cash but for a fixed amount of grain after every harvest. There is a traditional rate of how much should be given for each plough or cart owned by the farmer.

People know that the tradition will be



continued and the blacks mith does whatever is expected of him without asking for cash payment.

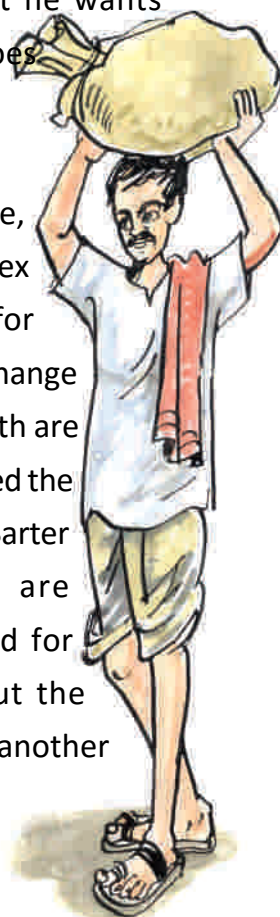


- Are you aware of any exchanges that are done without money?
- You may have bought things in exchange of old clothes, plastic, newspapers, hair, paddy etc. Discuss the transaction.

Let us take another example. Ramaiah has some rice, but he wants

potatoes. So he goes to Veeraiah who grows potatoes.

Veeraiah wants rice, and he is willing to exchange potatoes for rice. So the two exchange their goods, and both are satisfied. This is called the Barter system. In a Barter system, goods are directly exchanged for each other without the use of money. In another example, Gopal has a goat and he wants to exchange it for



rice. He goes to Seenu. Seenu wants a goat, but he has jowar and not rice. Gopal meets Ramu who produces rice. But Ramu does not want to exchange his rice for the goat, he wants to buy jowar.

Complete the following table:

	<i>Gopal</i>	<i>Seenu</i>	<i>Ramu</i>
Wishes to buy			
Wishes to sell			

- What can we conclude from the above table?
- Explain in your own words why exchange is not possible between Gopal and Seenu.
- Will the use of money help? Fill in the blanks.

If Gopal exchanges for money, his goat with, then Gopal uses this to buy rice from Now can use this money to buy from Seenu.

- Ask your parents how washermen, barbers, *neeti kaavalikaru* were paid for their work in villages and towns.

Exchange with Money

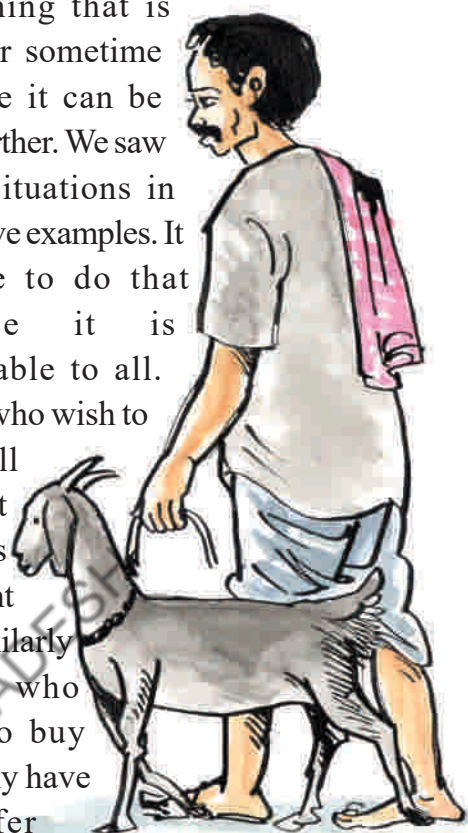
If we use money, there will be no problem in exchanging commodities. It is then not necessary that a person who has something in excess finds another person who needs it and has something what he wants. Money acts as an intermediary or

in between step, something that is held for sometime because it can be used further. We saw these situations in the above examples. It is able to do that because it is acceptable to all.

Those who wish to sell will

accept this as payment and similarly those who wish to buy will only have to offer money in

exchange. Any commodity or service can be exchanged for money, and money can be exchanged for any commodity or service. Money, by itself may have no use. It is wanted because of the role it plays in exchange. One can also borrow and pay back in the form of money.



- How can money be used in the transactions between Gopal, Seenu, and Ramu? Explain with the help of a flow chart.
- If the role of money as described above were stated as a medium of exchange, would you agree? Explain.
- For how much rice should Gopal exchange his goat?

- In a Barter System how do you pay a person who cuts your hair? Discuss.

Barter System has another problem.

Gopal: How many bags of rice will you give for this goat?

Seetaiah: Two bags.

Gopal: I was offered 4 bags for it in near by village.

Seetaiah: And I can get a goat for just one bag in other village.

Gopal:

Seetaiah:

Gopal wants 6 bags of rice for his goat. At what rate should they be exchanged? In other words, what is the **value** of the goat, in terms of rice? Under the Barter system, to make exchange possible it was necessary to determine the value of a commodity in terms of another. If one has to do this for many commodities, this is quite cumbersome and does not facilitate exchange or trading. It is not convenient. Other ways of exchange evolved that we will read later. However in some situations this is still used and found useful, especially in rural areas.

- In the above example, complete the conversation so that they are able to trade.
- If money was not used by you or any of the traders in your *santalu* or weekly market what would happen? Describe in a paragraph.
- Do you think money can act as a measure of value of goods and services? Explain.

- Hari cultivates vegetables like tomatoes, okra, green leaves etc. He wants to buy fertiliser after three months. He can't keep these vegetables with him to pay for the fertiliser after three months. If he does not use money what arrangement will he get into with the person supplying fertilisers? Do you find such arrangements in villages around you? Many a time farmers may not benefit from such arrangements. Discuss.

Gopal has a goat, and wants to buy a matchbox. Is it a fair exchange for him? He cannot give a part of the goat for a matchbox, because the goat is not divisible. But with money you can buy small items also. Money is divisible – there are Rupees and Paise. You can see that commodities like vegetables should be exchanged immediately, because they are perishable. This problem is removed when commodities are sold for money. Money is durable, and it can be kept for future use. Also holding of commodities like sheep, goats, or bags of rice requires a lot of space and you need carts and trucks to carry your goods for exchange to the market. However money does not require much space to keep, it can be carried about anywhere in a bag or purse. It is portable.

Evolution of forms of Money

People all over the world practised Barter system and also encountered the problems with this system. When trading became more widespread, more goods were



Fig 7.1: Coins of different periods, kingdoms

bought and sold. They were also transported over long distances. In such circumstances use of some form of money evolved in all societies. For example, in very early ages people used grains and cattle as money. But these were difficult to transport and stock. Durability was also a problem since they could be attacked by disease etc.

Over time, people preferred scarce and attractive metals as medium of exchange. Copper, bronze, silver and gold are durable, can be divided into parts and be carried around. Since they were scarce they became acceptable by all. People could buy and sell with the assurance that the money they had in hand would be valuable and sought by others. They have to worry that their money might lose value as could happen with grains or cattle. However, some problems remained and new problems came up. For every exchange the metal had to be weighed and later on traders were not sure about the quality of the metal. What one might get in exchange may not be pure gold or silver. After some time there was a serious problem of trust in the quality of metal that was used as money for exchange.

This provided an opportunity for various rulers of the kingdoms to come up with a system that was suitable for them and also solved some of the above problems. This led to minting coins of

standard size, weight, and purity from the Royal Mint. It was not necessary to weigh each time, there was greater assurance of purity and it was easy to carry. In the Roman period “Besant”- a gold coin was the standard currency and in the Mauryan period “Pana” - a silver coin was the standard currency. Coins became the acceptable form of money by traders and people.

- Why were metals preferred for use as money?
- Do you think minting of coins was a good idea?
- In what ways would minting of coins benefit the rulers? Can you think of three different reasons?

Paper Money and Emergence of Banks

People, who had to buy and sell in large quantities, had to carry large amounts of gold or silver coins for their transactions. So they started looking for safe places to keep them. They went to goldsmiths, where their money would be protected. The goldsmiths charged fees for keeping their valuables safe and making them available whenever they wanted. This practice became popular and the trust in some of the goldsmiths or shroffs grew.

Plastic or Polymer Bank notes

These goldsmiths would also give loans and had branches in many cities leading to a new system of paper money or *hundis*. For example Somu is a machinery tools merchant of Vijayawada, he has to go to Hyderabad to buy machinery from Chandu. It is dangerous to carry gold coins for payment all the way to Hyderabad. So he keeps his ten gold

coins, with a goldsmith, and takes a receipt issued in his name. The receipt would say, “I promise to pay 10 gold coins”. Now Somu buys the machines from Chandu. He gives the goldsmith’s receipt to Chandu and tells him to collect the 10 gold coins from the goldsmith as payment. Chandu knows that he can go anytime to collect the 10 gold coins from the goldsmith who has an office at Hyderabad also. He doesn’t go to collect the money but instead he goes to Sayeed who sells iron and steel, and gives him Somu’s receipt for 10 gold coins in exchange for steel. He tells Sayeed that he can collect the gold from that same goldsmith. Since the goldsmith is known to all and is trusted for always paying up the receipts that are brought to him, Sayeed accepts the receipt easily. Somu’s original receipt has now circulated in the economy, and is being transferred from one person to another and all accept this as a means of payment. Because of the trust created, such receipts began to work as a new form of money.

Paper money also has its defects. It will tear and get dirty. So there is an idea of using plastic material for notes. Plastic or polymer currency is easy to handle, more durable and forgery can be detected easily. It is water-proof and eco friendly (recycling is easy). From metal to paper and now probably paper to plastic. Do you think the material used for money affects the value of it?



Fig. 7.2: In India Reserve Bank of India is responsible for printing and circulating the money.

The early bankers in India such as Jagatseths of Bengal, Shahs of Patna, Arunji Nathji of Surat, Chettiars of Madras enjoyed such wealth and reputation that their receipts – paper money called *hundis* - were accepted throughout the country and outside too.



Let us look at a different story for the emergence of banks. In 1606, Amsterdam was a major trading centre in Europe. Here there were 846 types of silver and gold coins recognised by the government that could be accepted for exchange. However, traders were always suspicious of each other – everyone would doubt the purity and weight of these coins. The merchants of Amsterdam got together and solved this problem in a unique manner. They created a bank owned by the city. A merchant would take his coins and the bank would weigh and find out the amount of pure metal and give him receipt for this and open an account. Whenever required he could ask for the

pure metal. He could also transfer some of this to another person, if required. This was convenient for traders.

The bank operated honestly and it was trusted by all traders. They would ask for receipts of the bank or a transfer to their account, instead of the coins. The traders knew that the bank would on demand give them pure metal. Deposits at the bank became a new form of money. The business of the bank grew and it worked successfully for two centuries. The operation of bank deposits as money had evolved.

- Why do the receipts of the goldsmith work as money?

- Can you think of situations when this trust of the goldsmith could break?
- What was the problem faced by the traders in Amsterdam and how did they find a way out?
- After two centuries this bank collapsed. Can you guess what could have been the reasons for this? Discuss.
- Read the promise on paper notes used today. Who is making the promise and to whom? Why is this important? Discuss.

BANKING

Modern Banks

- Have you ever been inside a bank? What are the names of some banks you know?
- If you step inside a Bank, you will find some employees sitting at different counters with their computers/ ledgers and dealing with the customers. You can also observe people depositing money at some counters and withdrawing money at other counters. There is one cabin where the manager sits. What do these bank employees do?

Commercial Banks

Banking is a business activity where money deposits are collected from the public, and these deposits can be transferred from one person to another. Banks also give loans to businessmen, industrialists, farmers and individuals. Such banks are called Commercial Banks. Let us examine both these aspects.

Deposits

Deposits refer to the money that people keep in the banks. There are different types of deposits. Let us look at some of these below.



Savings Deposits or Savings Accounts:

Geeta has saved Rs. 5000 from her salary and wants to keep it safely. She goes to a branch of State Bank of Hyderabad which is close to her home and opens a Savings Account. She does get some interest on it and her money is safe. Most importantly she can withdraw it any time she wants. The bank promises to pay on demand.

Find out

- How would she withdraw the money from an ATM?
- What would she do if she went to her bank branch?

Why do we save money in a bank?

- Money kept at home does not earn interest. But, money kept in a bank account does. If you keep money in the bank it will grow.
- In the villages, poor peoples incomes are irregular and unpredictable. You have to cope with a bad crop season, loss of employment, illness or death in the family. You also need money for marriages and festivals. Saving money in a bank account helps you smoothen your income.
- Money is safe in bank, please check, if the bank in which you intend to keep your hard earned money is licensed, please do not share bank account details with anybody. Protecting your bank account is as important as opening and using it.



Fig 7.3:
Inside a Bank

of money through electronic payment channels or checks.

Small account: If basic savings bank deposit account is opened on the basis of simplified KYC norms the account would additionally treated as small account and would be subject to conditions stipulated for such accounts. Total credits should not exceed 1 lakh rupees in a year. Maximum balance should not exceed 50,000 rupees at any time. The total of debits by cash withdrawals and transfers will not exceed 10,000 rupees in a month. Small accounts are valid for a period of 12 months initially which may be extended by another 12 months if the person provides proof of having applied for an officially valid document.

Cheques

Nowadays cheques are widely used for making payments and receiving money.

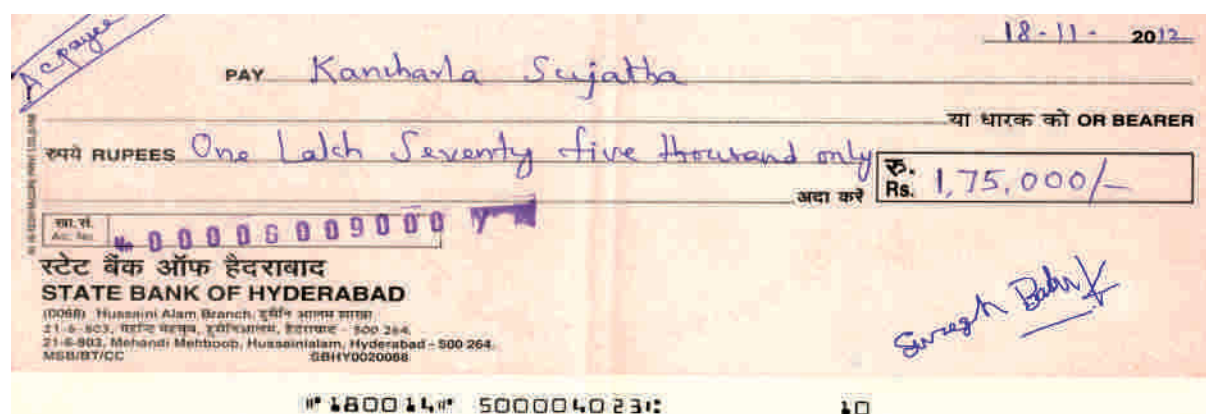


Fig 7.4: A model cheque

When you want to give money to someone, you write a cheque on that person's name. When you want to send money to someone who lives in a different place, you can send a cheque to the person by post. You can also use your cheque to transfer money electronically into the other person's account through a bank. For business purposes, where money is frequently received and paid, cheques are very important as a medium for transactions.

You can see an example (page 83) as how a cheque is written. Suresh is an account holder in the Andhra Bank. He has to pay Rs. 1,75,000/- to Kancharla Sujatha. So he gives her a crossed cheque in the name of Kancharla Sujatha.

- Draw the picture of a bank cheque in your notebook and pay Rs.1,50,000 to your friend sitting next to you.
- Why is a crossed cheque safe? Discuss.
- If Suresh Babu wants to deposit 1,75,000 electronically into Kancharla Sujatha's account through his bank, how can this be done? What more information would he require? Visit a bank and find out.
- Discuss and make a list of payments that people make electronically without using a cheque.

Current Account Deposits:

Many businessmen, shopkeepers, companies and traders have large daily earnings and payments. They have to withdraw money many times to buy goods, pay labourers, etc. Similarly, large business

offices get money from customers who purchase their goods and services every day and they daily pay those who have supplied them various things or done some work for them. For many requirements of these kind, banks have a separate type of account called Current Account. There are no restrictions on the number of times you can deposit or withdraw the money from a current account. Transactions can be made by way of cheque, so there is no risk of handling huge amounts of cash. However the bank does not pay any interest on money deposited in a current account but will collect service charges.

- What is the difference between a savings account and a current account?

How does the system work?

Cheque deposited into a bank account enables one to transfer the money into another. This facility operated by the banking system makes deposits work like money. Bank deposits are money.

In many towns and cities representatives of all banks meet on each day to settle what each bank has to pay to the other and receive from the other. Cheques that have been verified are handed over to each other. One of the banks works as the Clearing Bank where all the banks have an account. The payments and receipts between banks are done by this Clearing Bank.

In the present system all banks and most of their branches are linked by computers. All deposit holder accounts and their signatures can be accessed by the branches anywhere. Hence representatives

don't have to meet nor do banks have to send cheques to the outstation branches. Transaction between one bank and another is done through interlinked computers. This makes the whole system work faster and in an easier manner.

Internet banking

Now a days computers and internets are used everywhere. In most banks human and manual teller counters are being replaced by the Automated Teller Machine [ATM]. Banking activity is being done with computers with internet and other electronic means of communication which is called as electronic banking or internet banking. Most of the banks are providing debit card, credit card, net banking, phone banking for their customers to use the banking services online.

Internet banking helps transferring funds from one customer's bank account to another customer's bank account, buying and selling goods, investments for repaying loans and payments of electricity, phone and other utility bills.

With internet banking a customer is saved from hassles of travelling, paper work and other kind of stuff. In just a few clicks, one can access their account and transfer funds, pay bills, etc. People with hectic schedule prefer Internet Banking.

Mr. Raghu has an account in SBI, Secunderabad branch and has registered for online banking facility. To pay his phone bill Mr. Raghu logs in to the S.B.I. website by entering his user name and password. He



Fig 7.5: A person withdrawing money from ATM



selects the option for online payment of phone bill, enters the phone number and the amount to be paid. The amount will be debited from his SBI account and invoice generated. Paying bills through online saves time and energy and also ensures that the bills are paid in time.

Bank Accounts for Minors

- A savings / fixed / recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian.
- Minors above the age of 10 years are allowed to open and operate savings bank accounts independently, subject to bank's risk management systems that are in place
- Additional banking facilities like internet banking, ATM / debit card, cheque book facility etc., are allowed. But minor accounts are not allowed to be overdrawn and should always remain in credit.

- Match the statement in column A with the word(s) / terms in column B:

Column A

- (a) The banking facility that helps us to make payments out of our bank account without actually carrying money with us.
- (b) The banking facility enabling us to deposit or withdraw cash 24 hours a day.
- (c) The facility that helps us to perform banking transactions over the Internet.
- (d) We can get information about the balance in our bank account over the mobile phone using this facility.
- (e) The facility that enables us to make payment for ()

Column B

- () (i) ATM
- () (ii) Phone Banking
- () (iii) Credit Card
- () (iv) Debit Card
- () (v) Net Banking

Fixed Deposit

Manaswini's grand father wanted to give her a gift. So he gave her a Fixed Deposit certificate for Rs. 10,000. "It will grow enough till five years to pay for your college Education," grandfather said. How can it grow?

A Fixed Deposit or a Term Deposit cannot be withdrawn from the bank for a fixed period of time. It could be one year, two, five or seven years. The rate of interest is higher on a fixed deposit.



- When should one opt fixed deposits for savings?
- How much money will Manaswini get from her Fixed Deposit till five years, if the rate of interest is 8%?
- Suppose she needs the money urgently for some medical treatment. Can she withdraw it from the Fixed Deposit at the bank? What will happen?

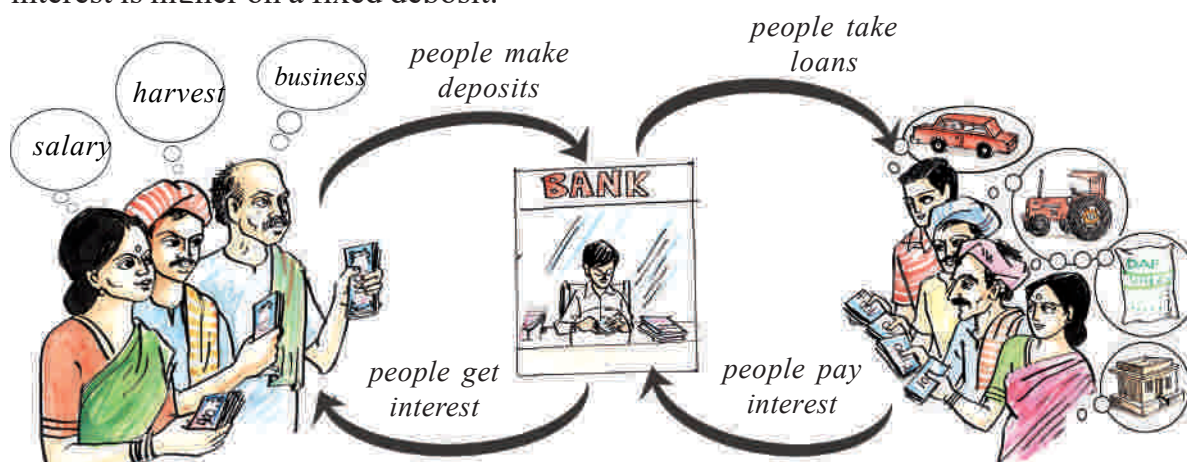


Fig 7.7: Functioning of a Bank

Loans

A bank is a business enterprise. It has to pay interest to its depositors, pay salary to its employees, has to buy and maintain equipment, pay rent and bear all the cost of running a bank and also make profit. So how does it earn revenue?

Deposits are the way through which money saved by people comes into the bank. As long as depositors trust that the bank pays them their money on demand people don't rush to withdraw their deposit as cash. Many people withdraw money at the beginning of the month. If the depositors are farmers, then there will be a greater demand for cash during certain seasons (rainy season). Hence over time banks realised that they require only a small proportion of the deposits so that they can always keep to the promise of payment on demand. The trust is kept if people can withdraw their money as cash or use bank deposits for payments.

On the other side banks give loans to people. People will pay back these loans with interest. Banks also give loans to government and earn some interest. The interest earned on loans given by the bank is the source of revenue.

- Will the same rate of interest be charged for all types of borrowers from a bank?
- What will happen if some borrowers do not repay the bank loan?

Types of Loans

Banks give loans and advances to different sections of the public like traders,

industrialists, students (educational loans), farmers, artisans etc. Let us examine some of them.

Rahim is a small farmer who grows paddy on his 4 acres of land. He needed money for fertilisers and seeds at the time of sowing. So he took a loan of Rs 10,000. He mortgaged (gave as security) his harvest. After selling the harvest, Rahim will return the loan to the bank along with interest, within one year.

Leela wants to buy a flat. She takes housing loan from a bank for Rs. 8 lakhs, by mortgaging her flat. A certain amount is deducted from her salary every month and paid to the bank. She will recover the ownership papers of her flat, after fully paying off her bank loan.

Shanta is a member of the Self-Help Group (SHG). She has taken a loan for her house repair from the bank. She does not have to keep any assets as security. The group will ensure that loans are paid back by its members.



Fig 7.8: SHG members' meeting

Different people can obtain loans for different requirements under some rules and conditions of the bank. Interest rate, security and documents required and the mode of repayment are all part of the conditions for the loan.

- Why do banks ask for security while lending?
- Which is a better source of loans – Banks or Money Lenders? Why?
- How is an SHG loan different from an individual loan?

Visit a commercial bank which is near to your locality and fill up the following table:							
S.. No	Type of loan	Loan amount	Duration of loan	Documents required	Interest rate	Mode of payment	Security, if any
1.	Vehicle						
2.							
3.							



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Key words

1. Barter 2. Forms of money 3. Deposits 4. Savings
5. Loan 6. Interest 7. Cheque

Improve your learning

1. Fill in the following table with some examples of transactions: AS₁

Transactions involving rupee notes and coins	Transactions not involving rupee notes and coins

2. Can there be any difficulties or disadvantages in keeping money in a bank? Think and write. AS₁
3. In what ways have cheques made exchange of money more convenient? AS₁
4. Only a part of the total deposits is kept as cash in the bank-safe. Why is this so and how does this benefit the bank? AS₁

5. If a very large number of account-holders do not wish to keep their money in the bank, how will it affect the bank's working? AS₁
6. If many loans are written off (that is, borrowers are not required to pay back the money) how will this affect the working of the bank? AS₁
7. People have to pay a higher interest on loan than the interest they receive on a fixed deposit for the same time-period. Why do you think this is so? AS₁
8. Suppose this year the rains are poor and the crop yield is only half as much as was originally expected. Some people say that if this happens the farmers should be asked to pay back only half the amount they have taken as loans. However other people say that full amount should be repaid, keeping in view the next year's crop. In your opinion what should the bank do and why? AS₄
9. Read the paragraphs under the header 'Types of Loans' and answer the following:
What sort of loans are more in your area? AS₂
10. Do you feel that the loans taken from SHGs are helpful to the members? How? AS₆

Activity:

Suppose you need Rs. 2,000. You fill a cheque, and give it to your sister and send her to get the money in cash.

Project:

1. Visit a bank or invite a bank employee to the school and find out:
 - a) How to open a saving account in your name?
 - b) How are cheques cleared by the banks?
 - c) How do banks make NEFT Transfers? (National Electronic Funds Transfer)
 - d) What security precautions are necessary for an ATM to work? What does the computer check?
 - e) Apart from cheques, people can also exchange money through Bank Drafts/ on line transaction etc. Find out.
 - f) For the person receiving the money what is the advantage of online transaction compared to a cheque?

g) The following interest rates on savings deposit	
Interest rate on fixed deposit	
Interest rate for loans given to farmers	
Interest rate for loans given to housing	

Interest rate for loans given to education

2. Please visit www.rbi.org.in and read comics on financial inclusion/ financial literacy themes.