ATOMIC ENERGY CENTRAL SCHOOLS
Revision Notes
Economics(Std 10)
Chapter-3 Money and Credit(Module 1)

MONEY AS A MEDIUM OF EXCHANGE:
1. A person holding money can exchange it for any commodity or service that he or she might want.
2. Thus everyone prefers to receive payments in money and then exchange the money for things that they want.
3. Both parties have to agree to sell and buy each other commodities. This is known as a Double coincidence of wants.
4. What a person desires to sell is exactly what the other wishes to buy.
5. In a barter system where goods are directly exchanged without the use of money, the double coincidence of wants is an essential feature.
6. In contrast, in an economy where money is in use, money by providing the crucial intermediate step eliminates the need for double coincidence of wants.
7. Money acts as an intermediate in the exchange process, it is called a medium of exchange. This is known as Barter System.

MODERN FORMS OF MONEY:
1. We have seen that money is something that can act as a medium of exchange in transactions.
2. Before the introduction of coins, a variety of objects was used as money.
3. For example, since the very early ages, Indians used grains and cattle as money.
Currency:
1. Modern forms of money include currency – paper notes and coins.
2. Money is accepted as a medium of exchange because the currency is authorized by the government of the country.
3. In India, the Reserve Bank of India issues currency notes on behalf of the central government.
4. As per Indian law, no other individual or organization is allowed to issue currency.
5. No individual in India can legally refuse a payment made in rupees.

Deposits with Bank:
1. The other form in which people hold money is as deposits with the bank.
2. People deposit money with the banks by the opening a bank account in their name.
3. Banks accept the deposits and also pay an amount as interest on the deposits.
4. People also have the provision to withdraw the money as and when they require.

5. Since the deposits in the accounts can be withdrawn on demand, these deposits are called demand deposits.
6. It is this facility which lends it the essential characteristics of money.
7. You would have heard of payments being made by cheques instead of cash.
8. For payment by cheque, the buyer who has an account with the bank, make out a cheque for a specific amount.
9. A cheque is a paper instructing the bank to pay a specific amount from the person's account to the person in whose name the cheque has been issued.
10. The facility of cheque against demand deposits makes it possible to directly settle payments without the use of cash.
11. Since demand deposits are accepted widely as a means of payment, along with currency, they constitute money in the modern economy.
12. But for the banks, there would be no demand and no payments by cheques against these deposits. The modern forms of money – currency and deposits – are closely linked to the working of the modern banking system.

LOAN ACTIVITIES OF BANKS:
1. Banks keep only a small proportion of their deposits as cash with themselves.
2. This is kept as a provision to pay the depositors who might come to withdraw money from the bank on any given day.
3. Since, on any particular day, only some of its many depositors come to withdraw cash, the bank is able to manage with this cash.
4. Banks use the major portion of the deposits to extend loans.
5. There is a huge demand for loans for various economic activities.
6. Banks make use of the deposits to meet the loan requirements of the people.
7. In this way, banks mediate between those who have surplus funds and those who are in need of these funds.
8. Banks charge a higher interest rate on loans than what they offer on deposits.
9. The difference between what is charged from borrowers and what is paid to depositors is their main source of income.