

Chapter 3 MONEY AND CREDIT

- 1. Why are transactions made in money?**
 - i. A person holding money can easily exchange it for any commodity or service that he or she might want. Thus, everyone prefers to receive payments in money and then exchange the money for things that they want.
 - ii. It eliminates the need for double coincidence of wants. Money is something that can act as a medium of exchange in transactions.
- 2. What is double coincidence of wants? How does money solve double coincidence of wants?**
 - i. It was a situation that existed in the barter system of exchange, before the introduction of money. What a person desires to sell and buy is exactly what the other wishes to buy and sell. In this situation, it is difficult to find a person who is willing to exchange two commodities each other.
 - ii. Where money is in use goods can be bought and sold to different people. Whatever one person wants to sell, he can sell it to any one who wants it and get money. He can use the money to buy some thing from a different person. Here money acts as a medium of exchange and double coincidence of wants is eliminated.
- 3. Why is money accepted as a medium of exchange?**
 - i. Money is portable and easy to carry. It solves the problems of double coincidence of wants.
 - ii. It is accepted as a medium of exchange because the currency is authorized by the government of any country. Moreover, the law legalizes the use of money as a medium of payment. No individual in India can legally refuse a payment made in currency. Hence, it is widely accepted as a medium of exchange.
- 4. Trace the stages in the growth and use of money.**
 - i. Before the introduction of coins, a variety of objects was used as money. For example, since the very early ages, Indians used grains and cattle as money in the barter system.
 - ii. Thereafter came the use of metallic coins — gold, silver, copper coins — a phase which continued well into the last century.
 - iii. Modern forms of money include currency — paper notes and coins. Unlike the things that were used as money earlier, modern currency is not made of precious metal such as gold, silver and copper. Unlike grain and cattle, they are neither of everyday use. The modern currency is without any use of its own.
- 5. How is modern currency different from early objects of transactions?**
 - i. Modern currency is accepted as a medium of exchange because it is authorized by the government of the country. There was no medium of exchange in barter system before when goods were exchanged for goods.
 - ii. Modern currency solves the problems of double coincidence of wants where as in barter system double coincidence of wants was essential.
 - iii. Modern currency is light and easy to carry where as objects were heavy and difficult to carry to distant places.
 - iv. Unlike the objects used like grain or cattle, money does not have a use of its own.
- 6. What are demand deposits? What are its features.**
 - i. The money deposited in the bank accounts which can be withdrawn on demand is known as demand deposits. It is eligible to get a small rate of interest. The time of withdrawal is not specified in this account.
 - ii. It shares the essential feature of money. Payments can be done by cheques instead of cash.

- iii. Since demand deposits are accepted widely as a means of payment along with currency, they constitute money in the modern economy.

How do demand deposits possess the essential features of money? (Same above)

7. What is a bank cheque?

- i. 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 made.

8. How do banks mediate between the depositors and borrowers? Or Describe the mechanism at work in the banks. Or What do banks do with the public deposits?

- A. Banks accept deposit from depositors, by offering interest.
- B. A small percentage of all the deposits (15 %) will be kept as reserves in the banks to pay when depositors demand it, hoping all depositors will not withdraw money at a time.
- C. Banks use the major portion of the deposits to extend loans. People take loan from banks for various purposes. Banks charge a higher interest rate on loans than what they offer on deposits. The difference between what is charged from borrowers and what is paid to depositors is their main source of income for the banks.

9. How is credit a boon and a curse to the borrower? Or What are the two different situations of credit?

- A. Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment.
- B. Credit will be a boon to a borrower if the interest rate is very low and if he is able to pay back in time. In this situation credit helps to increase earnings and therefore the person is better off than before.
- C. In different situation, if a borrower is not able to pay back the loan because of high rate of interests or and an unexpected situation like a crop failure, credit pushes the person into a debt trap and recovery from this situation is difficult. To repay the loan he has to sell a portion of the land or other property. In this situation, the person is clearly much worse off than before.

What is meant by debt trap? (Write Point C above)

10. What is collateral? Why do lenders ask collateral while lending?

- i. Collateral is an asset that the borrower owns (such as land, building, vehicle, livestock, deposits with banks) and uses this as a guarantee to a lender until the loan is repaid.
- ii. If the borrower fails to repay the loan, the lender has the right to sell the asset or collateral to obtain payment. Property such as land titles, deposits with banks, livestock are some common examples of collateral used for borrowing.

11. What is credit? Explain the various terms of credit with examples.

Credit (loan) refers to an agreement in which the lender supplies the borrower with money, goods or services in return for the promise of future payment. The terms of credit are the following:

- i. Interest rate: Formal sector demands less rate of interest compared to informal sector. At present, they demand 8 to 12 % interest rate.
- ii. Collateral and documentation requirement: It refers to the security against the loan demanded and kept by the lender until the loan is paid back. It can be gold or documents of properties or other certificates attached with the application.
- iii. The mode of repayment: The borrower should pay back the interest and the principal amount weekly or monthly by cash or cheques as decided at the time of making agreements.

12. What are the different sources of loan for agricultural farmers in 2010 ?

A. Formal Sector:

Commercial banks and Cooperatives provide 52 % credit to rural households in India. Government and other formal sources provide 8 % only.

B. Informal Sector:

A major part of credit requirement of the farmers is provided by professional and agricultural moneylenders, which constitute 18 % of the credit. Traders provide 5 %, relatives and friends provide 4 %, land lords provide 6 % and others provide 5 % of credit in India. Sources of credit not specified 2 %.

13. Differentiate between formal and informal sectors of credit in India.

- i. Formal Sector of credit includes Commercial banks, Grammeen Banks, Cooperative societies etc. who provide loan to farmers. Informal sector includes moneylenders, traders, employers, relatives and friends who provide loans.
- ii. There is no organization, which supervises the credit activities of lenders in the informal sector. However, Reserve Bank of India supervises the formal sector and issue guidelines.
- iii. Compared to the formal lenders, most of the informal lenders charge a much higher interest and put other terms on loans. Thus, the cost to the borrower of informal loans is much higher. This may push them in to debt trap.
- iv. Informal lenders adopt unfair means to get their money back. On the other hand, Banks follow only legal measures to recover loans. In many cases, they may even 'write off' agricultural loans.
- v. Cheap and affordable credit is crucial for the country's development. It is available in banks and cooperatives. It reduces the dependence of rural households in the informal sector.

Why should banks and cooperatives need to lend more?

(Write points ii to v above)

14. Why should credit at reasonable rate be available for all? (Why do we need to expand formal sources of credit in India?)

- i. To start and continue an economic activity: Activities like crop production requires considerable cost on seeds, fertilizers, pesticides, water, electricity, repair of equipment, transportation etc. Since most of the farmers are poor, they require credit facilities.
- ii. To save from the debt trap: Most of the informal lenders charge a much higher interest and put other terms on loans. Thus, the cost to the borrower of informal loans is much higher. This may push them in to debt trap. Reasonable rate of interests in the formal sector may save them.
- iii. Cheap and affordable credit is crucial for the country's development. It is available in Banks and cooperatives. It reduces the dependence of rural households in the informal sector. Hence, we should expand formal sources of credit in India.

15. What is the general pattern of credit taken by the rural and urban households?

- i. Majority of the rich urban and rural households depends on formal sector such as banks for their credit facilities.
- ii. Majority of the poor urban and rural households depends on informal sources of credit like the moneylenders.
- iii. Formal sector meets only about half of the credit requirements of the rural people. The remaining credit needs are met from informal sources.

16. Describe the functioning of Self Help Group. (SHG)

- i. A typical SHG has 15-20 members, usually belonging to one neighbourhood, who meet and save regularly. Saving per member varies from Rs 25 to Rs 100 or more, depending on the ability of the people to save.
- ii. Members can take small loans from the group itself to meet their needs. The group charges interest on these loans but this is still less than what moneylenders charge. After a year or two, if the group is regular in savings, it becomes eligible for availing loan from the bank. Loan is sanctioned in the name of the group and is meant to create self-employment opportunities for the members.
- iii. Most of the important decisions regarding the savings and loan activities are taken by the group members. The group decides as regards the loans to be granted — the purpose, amount, interest to be charged, repayment schedule etc.
- iv. Also, it is the group which is responsible for the repayment of the loan. Any case of non-repayment of loan by any one member is followed up seriously by other members in the group. Because of this feature, banks are willing to lend to the poor women when organized in SHGs, even though they have no collateral as such.
- v. Thus, the SHGs help borrowers overcome the problem of lack of collateral. They can get timely loans for a variety of purposes and at a reasonable interest rate. Moreover, SHGs are the building blocks of organization of the rural poor.
- vi. Not only does it help women to become financially self-reliant, the regular meetings of the group provide a platform to discuss and act on a variety of social issues such as health, nutrition, domestic violence, etc.

17. In situation with high risks, credit might create further problem to the borrower.

Explain.

- i. High rate of interests and undue conditions may find borrowers difficult to repay the loan taken and it push them to debt trap.
- ii. In an unexpected situation like a natural calamity and a crop failure, a borrower may find it difficult to repay the loan taken and some times, he will be forced to sell off a portion of the land or other property to re pay the loan.

18. What is the basic idea behind the SHGs for the poor?

- i. To develop saving habit among its members.
- ii. To help each other at times of need for credit.
- iii. To save them from the money lenders and the debt trap.
- iv. To overcome the problem of collateral for loans and to become financially self-reliant.

19. What are the reasons why the banks might not be willing to lend to certain borrowers?

- i. The risk involved in their activities like a crop failure, which may lead to non-repayment of loans.
- ii. Banks might not be willing to lend to certain borrowers who fails to provide collateral as a security to the loan.

20. In what ways does the Reserve Bank of India supervise the functioning of banks? Why is it necessary? (Explain any 4 main functions of the RBI)

- i. The RBI monitors that all banks actually maintain the minimum cash balance. No bank is allowed to lend from the cash reserves.
- ii. Similarly, the RBI sees that banks give loans not just to profit-making businesses and traders but also to small cultivators, small scale industries, to small borrowers etc.
- iii. Periodically, banks have to submit information to the RBI on how much they are lending, to whom, at what interest rate, etc.
- iv. It is necessary to make the activities of all banks uniform in the country. It also helps to prevent unfair practices in banking.

21. What is the role of credit in development?

- i. It converts idle money into capital. Normally people take loan to engage in economic activities to earn a living. In this process, excess money that some people have is used for productive purposes. Credit provides both fixed and working capital in the processes of production. It helps the land less poor and unemployed youths to start enterprises.
- ii. It promotes thrift and savings, which is essential for development. The money that is saved can be used as credit; like wise, the borrower also has to save to repay the loan taken.
- iii. It helps businessmen or employers and employees, at times of financial crisis to come out of the situation and to sustain the economic activities.
- iv. The development plans of the country and a number of schemes to reduce unemployment and poverty are implemented through banks and thus through credit.

22. What are the advantages of formal source of credit?

- i. Most of the formal lenders charge a much lower interest and do not put other terms on loans. Thus, the cost to the borrower of formal loans is much lower.
- ii. Banks follow only legal measures to recover loans. In many cases, they may even ‘write off’ agricultural loans.
- iii. Cheap and affordable credit is crucial for the country’s development. It is available in banks and cooperatives. It reduces the dependence of rural households in the informal sector.
- iv. Reserve Bank of India supervises the formal sector and issue guidelines. (any two)

23. Suggest two measures for improving the share of formal sector in total credit.

- i. Reduce the interest rate.
- ii. Make the terms and conditions and procedures easy
- iii. Do not demand collateral. (Explain any two)

24. Why is moneylender still the largest single source of credit? (or Why are the poor households still depending on informal sources of credit in India?)

- i. Banks are not present everywhere in rural India. Even if it is present, it is not easy to get loans from a bank since many procedures are required.
- ii. Absence of collateral and documentation required in formal sector, forces poor households to depend on informal sectors like moneylenders where such collateral and documentations are not required.
- iii. Since the lender and the borrower in informal sector are personally known to each other availability of loan is easy at any time required.

Chapter 4 GLOBALIZATION AND THE INDIAN ECONOMY

1. **How have Indian markets been transformed in recent years? Explain with examples. (What changes do you notice in the markets in India recently?)**
 - i. We have a wide choice of goods and services before us in the Indian markets now. The latest models of digital cameras, mobile phones and televisions made by the leading manufacturers of the world are within our reach. Electronics goods became cheaper. Every season, new models of automobiles can be seen on Indian roads.
 - ii. A similar explosion of brands can be seen for many other goods: from shirts to televisions to processed fruit juices. Many international food-processing companies like Coco Cola entered Indian markets.
2. **What is a MNC ? How does it function? Or How does it spread production across the world?**
 - i. MNC is the short form of Multi National Companies. It owns or controls production in more than one nation.
 - ii. MNCs set up offices and factories for production in regions where they can get cheap labour and other resources. This is done so that the cost of production is low and the MNCs can earn greater profits.
 - iii. MNCs set up production units where it is close to the markets; where there is skilled and unskilled labour available at low costs; and where the availability of other factors of production is assured. In addition, MNCs might look for government policies that look after their interests..
 - iv. At times, MNCs set up production jointly with some of the local companies of different countries.

What are the conditions assured by MNCs while spreading the production across the world? (Write points ii and iii above)

3. **What are the two-fold benefits to the local companies in producing goods jointly with MNC?**
 - i. Firstly, MNCs can provide money to local companies for additional investments, like buying new machines for faster production.
 - ii. Secondly, MNCs might bring with them the latest technology for production.
4. **How do MNCs control production all over world? Or State the ways by which MNCs expand production all over the world?**
 - i. The most common route for MNC investments is to buy up local companies and then expand production. To take an example, Cargill Foods, a very large American MNC, has bought over smaller Indian companies such as Parakh Foods.
 - ii. There's another way in which MNCs control production. Large MNCs place orders for production with small producers. They purchase goods like garments and footwear from these small companies and then sell these under their own brand names to the customers. These large MNCs have tremendous power to determine price, quality, delivery, and labour conditions for these distant producers.
 - iii. They set up partnerships with local companies and expand production in some cases. Thus MNCs are exerting a strong influence on production at distant locations.

5. Why is foreign trade necessary? Or What are the functions of foreign trade? Or What are the advantages of foreign trade?

- i. Foreign trade creates an opportunity for the producers to reach beyond the domestic markets, and reach international markets.
- ii. Producers can sell their produce not only in markets located within the country but can also compete in markets located in other countries of the world.
- iii. Similarly, for the buyers, import of goods produced in another country is one way of expanding the choice of goods beyond what is domestically produced. Foreign trade thus results in connecting the markets or integration of markets in different countries.
- iv. Foreign trade promote international understanding and economic inter dependence between countries.

6. Define Globalization. How does it help international trade?

- i. Globalization is the process of integration of a country's economy with international economy. According to this, Indians can buy, sell any product or set up industries anywhere in the world or a foreigner can do it in India.
- ii. Since restrictions on imports and exports are removed, it makes the movements of goods, services, investments and technology, and labour freely from one country to the other.

7. What is the role of MNCs in the globalization process?

- i. Since Multi National Companies have expanded their production across the world, they encourage free movements of goods and services, technology and labour from one country to the other and thus help globalization.
- ii. Development of Information Technology and the removal of restriction imposed on imports and exports helped these companies to accelerate the process of globalization.

8. What are the factors that have enabled globalization?

- i. Rapid improvement in transportation technology has made much faster delivery of goods across long distances possible at lower costs.
- ii. Even the developments in information and communication technology helped a lot. In recent times, technology in the areas of telecommunications, computers and Internet has been changing rapidly. Telecommunication facilities (telegraph, telephone including mobile phones, fax) are used to contact one another around the world, to access information instantly, and to communicate from remote areas. This has been facilitated by satellite communication devices.
- ii. Liberalization of foreign trade and foreign investment policy and the removal of trade barriers by many countries helped globalization.
- iii. Establishment of World Trade Organization played an important role in encouraging globalization.

How does information technology help globalization?(Write Point ii above)

9. What is trade barrier? Why did India Government put barrier to foreign trade?

- i. Restricting foreign trade by imposing tax on imports is called trade barrier. Governments can use trade barriers to increase or decrease (regulate) foreign trade and to decide what kind of goods and how much of each, should come into the country.
- ii. The Indian government, after Independence, had put barriers to foreign trade and foreign investment. This was considered necessary to protect the producers within the country from foreign competition.

- iii. Industries were just coming up in the 1950s and 1960s, and competition from imports at that stage would not have allowed these industries to come up. Thus, India allowed imports of only essential items such as machinery, fertilizers, petroleum etc. All developed countries, during the early stages of development, have given protection to domestic producers through a variety of means.

10. Why did the Government remove trade barriers? Or Why did India adopt a new economic policy of liberalization and globalization in 1991?

- i. The government realized that trade barrier affected foreign trade adversely and foreign companies hesitated to invest in India. The negative aspects of the development strategy led to the removal trade barriers.
- ii. Around 1991, the Government decided that time had come for Indian producers to compete with producers around the world. It felt that competition would improve the performance of producers with in the country since they would have to improve the quality.
- iii. This decision was supported by powerful international organizations. In the general trend of globalization and being, a member of World Trade Organization India government removed the trade barriers.

11. What is liberalization of foreign trade?

Removing barriers or restrictions set by the government on foreign trade is known as liberalization. With liberalization of trade, businesspersons are allowed to make decisions freely about what they wish to import or export. The government removed the restrictions imposed on private sector in import and export of goods and all the rules and regulations were relaxed.

12. What is W.T.O? What are its two faces?

- i. World Trade Organisation (WTO) is an international organization set up to liberalize international trade. Started at the initiative of the developed countries, WTO establishes rules regarding international trade, and sees that these rules are obeyed. 153 countries of the world are currently members of the WTO (2011).
- ii. Though WTO is supposed to allow free trade for all, in practice, it is seen that the developed countries have unfairly retained trade barriers. On the other hand, WTO rules have forced the developing countries to remove trade barriers.

13. Examine the impact of globalization in India. (Impact on producers, consumers and workers) (How do we feel the direct impact of globalization on our daily life?)

- i. Firstly, **Multi National Companies** have increased their investments in India over the past 15 years, MNCs have been interested in industries such as cell phones, automobiles, electronics, soft drinks, fast food or services such as banking in urban areas. In these industries and services, new jobs have been created. Also, local companies supplying raw materials, etc. to these industries have prospered.
- ii. Secondly, several of the **top Indian companies** have been able to benefit from the increased competition. They have invested in newer technology and production methods and raised their production standards. Some have gained from successful collaborations with foreign companies.
- iii. Moreover, globalization has enabled some large **Indian companies** to emerge as multinationals themselves! Tata Motors (automobiles), Infosys (IT), Ranbaxy (medicines), Asian Paints (paints), Sundaram Fasteners (nuts and bolts) are some Indian companies which are spreading their operations worldwide.

- iv. Globalization has also created **new opportunities** for companies providing services, particularly those involving IT. The Indian company producing a magazine for the London based company is an example.
 - v. Besides, a **host of services** such as data entry, accounting, administrative tasks, engineering are now being done cheaply in countries such as India and are exported to the developed countries.
 - vi. For a large number of **small producers and workers** globalization has posed major challenges. Batteries, capacitors, plastics, toys, tyres, dairy products, and vegetable oil are some examples of small manufacturers, who have been hit hard due to competition. Several of the units have shut down rendering many workers jobless.
 - vii. There is a greater choice before the **consumers** who now enjoyed improved quality and lower prices for several products. As a result, these people today enjoy higher standards of living than before.
14. **What are the negative effects of globalization?** (Impact of globalization on small producers and workers)
- i. Globalization and the pressure of competition have changed the lives of workers. To stand in the global competition many companies cut down the benefits given to workers, reduced their salaries and treated as temporary workers. Jobs are no longer secure to them. Working conditions in organized sector resemble the unorganized sector.
 - ii. For a large number of small producers and workers globalization has posed major challenges. Batteries, capacitors, plastics, toys, tyres, dairy products, and vegetable oil are some examples of small manufacturers, who have been hit hard due to competition. Several of the units have shut down rendering many workers jobless.
- ‘The impact of Globalization has not been uniform’. Explain the statement.**
(Explain two points each from the two answers above- Ans 13 and 14)

15. **How did flexibility in labour laws help companies?**

- i. Companies are able to cut down the cost of production to maximize the profit. As cost of raw materials cannot be reduced, they tried to cut labour costs.
- ii. Where earlier a factory used to employ workers on a permanent basis, now they employ workers only on a temporary basis so that they do not have to pay workers for the whole year and they do not have to pay any service benefits.
- iii. Workers also have to put in very long working hours and work night shifts on a regular basis during the peak season. Wages are low and workers are forced to work overtime to make both ends meet. Workers are denied their fair share of benefits brought about by globalization.

16. **What is meant by SEZ?**

- i. It is the short form of Special Economic Zone. Such industrial zones are set up by the government to attract foreign companies to invest in India.
- ii. SEZs are to have world-class facilities: electricity, water, roads, transport, storage, recreational and educational facilities. Companies who set up production units in the SEZs do not have to pay taxes for an initial period of five years.
- iii. Government has also allowed flexibility in the labour laws to attract foreign investment.

17. What are the steps taken by the Government to attract foreign investment in India?

- i. India has become a member of World Trade Union.
- ii. The central and state governments set up Special Economic Zones with all facilities to attract foreign investment.
- iii. The Government of India followed a policy of liberalization and relaxed the rules and regulations to encourage imports and exports.
- iv. In recent years, the government has allowed companies to ignore many rules and regulations. Flexibility in labour laws allowed.

18. What is fair globalization? What role can the Government play to have a fair globalization? Or

Describe any 3 ways in which the flexibility of labour laws help companies.

- i. Fair globalization is a measure to eliminate the negative effect of globalization. It would create opportunities for all, and ensure that the benefits of globalization are shared better by all countries.
- ii. The government policies must protect the interests, not only of the rich and the powerful, but all the people in the country.
- iii. The government can ensure that labour laws are properly implemented and the workers get their rights. It can support small producers to improve their performance until the time they become strong enough to compete.
- iv. If necessary, the government can use trade and investment barriers. It can negotiate at the WTO for 'fairer rules'.
- v. It can also align with other developing countries with similar interests to fight against the domination of developed countries in the WTO.

19. How has competition benefited people in India?

- i. Competition helped to survive good quality products only in the market at reasonable price, which helped consumers. It provided them a lot of choice in purchasing.
- ii. It helped to absorb advanced technology at work and made our labour force competent.

20. Why do developed countries want developing countries to liberalize their trade And investment? What do you think should the developing countries demand in return?

- i. Developed countries want to interfere in the internal matters of developing countries. They want to dominate these poor countries in the form of neo-colonialism.
- ii. The developed countries want to control international trade and get market for their products. They even want safe places to invest their capital to maximize the profit. Therefore the developed countries want developing countries to liberalize their trade and investment.
- iii. Developing countries should demand advanced technology, financial assistance with low rate of interest and liberalization of their immigration laws to absorb skilled labourers.

21. How has liberalization of trade and investment policies helped the globalization process?

- i. It helped in the relaxation of rules and regulations on imports and export of goods, which resulted in the free movement of goods and services between countries.
- ii. It helped Multi National Companies expand their business all over the world and integration of international markets.

22. Why do MNCs spread out production across the borders?

- i) To sell products globally it should be produced globally to meet the wide market. It helps to save time and money.
- ii) MNCs set up production units where it is close to the markets; where there is skilled and unskilled labour available at low costs; and where the availability of other factors of production is assured. In addition, MNCs might look for government policies that look after their interests.

23. Why do MNCs set up joint production units with local companies?

- i) It helps them to save money to invest in other sectors or buy new machineries or technology.
- ii) It helps them to capture the existing market of the local companies.

24. Why are Chinese toys more popular in Indian markets?

- i) Chinese toys are much cheaper compared to Indian toys. So people prefer to buy it.
- ii) Latest technology is used in Chinese toys so it has a wide demand.
- iii) Chinese toys have varieties to attract the consumers and innovations were made frequently.

25. Discuss the impact of globalization on consumers.

- i) Globalization and greater competition among producers have been advantageous to consumers particularly the well off sections in the urban area. Now a variety of goods at **reasonable price** is available to them.
- ii) There is a greater choice to consumers now with **improved quality** of products. As a result, these people today enjoy **higher standards of living** than before.

26. In what ways is an MNC different from the national companies? Highlight any three points of Distinction.

- a) MNC has production units all over the world where as National companies- with in the country.
- b) MNCs have foreign investment where as National Companies do not have.
- c) National companies have limited investment where as MNCs have unlimited huge amount of investment.
- d) National Companies produce for local market where as MNCs produce for international market.
- e) MNCs have direct control over WTO whereas National Companies do not have.

27. (Multinational companies choose china as an alternative location for investment. Explain the statement. Ans 22 iii) or 2 iii))

Chapter 5 CONSUMER RIGHTS

1. **What are the various kinds of protection required to promote development?**
 - i. Protection of workers in the unorganized sector,
 - ii. Protection of people from high interest rates charged by moneylenders in the informal sector,
 - iii. Protection of consumers from unfair trade practices, are the various kinds of protection required to promote development.
 - iv. Similarly, rules and regulations are also required for protecting the environment.

2. **Why are rules and regulations required in the market place? Illustrate with a few examples. Or 9**
 - i. Consumers are exploited in a number of ways in the market. Individual consumers often find themselves difficult to protect their interests. Therefore, rules and regulations are required to protect the interest of consumers.
 - ii. Sometimes traders indulge in unfair trade practices such as under weight and under measurement, adulteration, hoarding etc.
 - iii. Whenever a complaint regarding goods or service is made, the seller tries to shift all the responsibility on to the buyer.
 - iv. Certain rules and regulations are required for the markets to work in a fair manner when producers are few and powerful whereas consumers purchase in small amounts and are scattered. (Continue answer 3)

3. **State any two achievements of the consumer movement in India. Or State any two positive impact of consumer movements in India.**
 - i. A company, for years, sold milk powder for babies all over the world as the most scientific product claiming to be better than mother's milk. It took years of struggle before the company was forced to accept that it had been making false claims.
 - ii. Similarly, a long battle had to be fought with court cases to make cigarette-manufacturing companies accept that their product could cause cancer. Hence, there is a need for rules and regulations to ensure protection for consumers.
 - iii. It took many years for organizations in India, and around the world, to create awareness amongst people. This has also shifted the responsibility of ensuring quality of goods and services on the sellers.
 - iv. Because of all these efforts, the movement succeeded in bringing pressure on business firms as well as government to correct business conduct, which may be unfair, and against the interests of consumers at large. A major step taken in 1986 by the Indian government was the enactment of the Consumer Protection Act 1986, popularly known as COPRA.
 - v. There are today more than 700 consumer groups in the country.
(any two points)

**Explain the need for consumer consciousness by giving two examples.
(Get points from Answer 2 and 3)**

4. What are the various ways by which consumers are exploited in the market?

- i. Underweight and under measurements: The goods sold in the market are some times not measured or weighed properly. The sellers give goods, less than the weight or measurement purposely to get more profit. It causes financial loss to consumers.
- ii. Sub-standard quality: Some products are not produced according to the government specifications. They are of low quality. Selling medicines beyond expiry dates causes financial loss and health hazards.
- iii. High Prices: Very often traders charge a higher price than the prescribed retail price. It leads to financial loss to consumers.
- iv. Duplicate articles: In the names of branded or genuine products, fake or duplicate items of low quality are sold in the market. Duplicate articles will not last long. These are not manufactured according to the specifications given by the Government. So it will not satisfy the requirements of the consumers.
- v. Adulteration and impurity: Adding impurities or unwanted substances to food items with a view to getting more profit is adulteration. When bricks powder is added to chilly powder or low quality oil is added to edible oil, the consumer is exploited. Apart from financial losses, it invites health hazard too.
- vi. Lack of safety devices: Electronic goods, electrical devices or other appliances produce locally, do not have the prescribed built-in safety devices. This cause accident to consumers.
- vii. Artificial scarcity: Sellers create artificial scarcity by hoarding the goods so that they can sell it later at a higher price when the price rises.
- viii. False or incomplete information: Sellers easily mislead consumers by giving wrong information about a product, its price, quality, reliability, and durability. They even give wrong information about expiry date, its effect on health, environment, safety and security maintenance, cost involved and terms and conditions of purchase.
- ix. Unsatisfactory after sale service: Expensive items required after sale service; other wise it becomes useless when it is struck or damaged. However, many suppliers do not provide after sale service in spite of necessary payments.(any four points)

5. What factors gave birth to the consumer movement in India? Trace its evolution.

Or

Why did consumer movement in India originate as a social force?

- i. In India, the consumer movement as a ‘social force’ originated with the necessity of protecting and promoting the interests of consumers against unethical and unfair trade practices.
- ii. Whenever a complaint regarding goods or service is made, the seller tries to shift all the responsibility on to the buyer.
- iii. Rampant (unchecked) food shortages, hoarding, black marketing, adulteration of food items gave birth to the consumer movement in an organized form in the 1960s.
- iv. Till the 1970s, consumer organizations were largely engaged in writing articles and holding exhibitions. They formed consumer groups to look into the malpractices in ration shops and overcrowding in the road passenger transport only.. More recently, India witnessed an upsurge in the number of consumer groups.

6. Mention a few factors that cause exploitation of consumers.

The factors causing the exploitation of the consumers are the following:

- i. Illiteracy of the consumers: Most of the consumers are illiterate and ignorant. They can’t differentiate between sub-standard and standard products. They may not know the market prices and their rights and duties. Hence, the sellers often cheat them.

- ii. Limited Competition (Monopoly of the product) : Certain products in the market are supplied by a particular company only. Since similar products are not available, people don't have choice and are forced to purchase what is offered with whatever price and quality.
- iii. Limited supply: When there is a shortage of a product in the market, consumers are tempted to rush to get whatever is available at whatever price and quality and can be cheated often.
- iv. Limited information: Sometimes the information given may be false or incomplete. On certain products, consumers have limited information, which leads to exploitation.

7. State the rights of consumers as codified in Indian laws.

- a. Right to safety: The consumers have the right to protect against marketing of goods and services, which are hazardous to life and property.
- b. Right to be informed- It is the right of the consumers to know the quality, quantity, potency, purity, standard and price of the goods. Right To Information Act support this right.
- c. Right to choose- It is the assurance of access to variety of goods with quality and services at competitive prices. A consumer who receives a service in whatever capacity regardless of age, gender and nature of service has the right to choose whether to continue to receive the service. The consumers can choose any product of any brand that gives him more satisfaction.
- d. Right to seek redressal: Consumer has the right to get the money back or compensation in the event of loss of money, damage, improper functioning or any other form of exploitation.
- e. Right to represent in the consumer courts - The consumer has the right to seek constitutional remedy against unfair trade practices or exploitation. He / she can go to a court to seek remedy and to get compensation depending on the degree of damage.

(Expect separate questions on each point)

8. Why are defective or low quality goods available in the market?

- a. Since most of the consumers are illiterate and ignorant, trades find it easy to exploit them. With the greed of making enormous profit they manufacture and sell such goods.
- b. We do find bad quality products in the market because the supervision of the rules and regulations is weak and the consumer movement is not strong enough. There are loopholes in the laws to protect them.

9. What are the information that a consumer should gather before purchasing a product?

- i. These information are about ingredients used, price, batch number, date of manufacture, expiry date and the address of the manufacturer, after sales service etc.
- ii. When we buy medicines, on the packets, we find 'directions for proper use' and information relating to side effects and risks associated with usage of that medicine. When we buy garments, we find information on 'instructions for washing'.

10. How does displaying the information about the product help consumers?

- a. It helps consumers to choose the best product after knowing the information given by different products. It helps the consumers to use the product effectively.
- b. It comply the right of the consumers to be informed and to seek remedy through courts. (Explain)

11. Why are rules made to display information by the manufacturers?

- i. Rules are made because it is the right of consumers to be informed.
- ii. Consumers can complain and ask for compensation or replacement if the product proves defective.
- iii. Similarly consumers can protest and complain if some one sells goods at more than the MRP.(Maximum Retail Price)

12. What is the rationale behind the enactment of Consumer Protection Act 1986?

- i. The rationale behind the enactment of Consumer Protection Act is protection of consumer rights and the prevention of unfair practices in the markets.
- ii. Consumers are exploited in a number of ways in the market. Individual consumers often find themselves difficult to protect their interests. Therefore, this Act was passed.
- iii. Sometimes traders indulge in unfair trade practices such as under weight and under measurement, adulteration, hoarding etc.
- iv. Whenever a complaint regarding goods or service is made, the seller tries to shift all the responsibility on to the buyer.
- v. Certain rules and regulations are required for the markets to work in a fair manner when producers are few and powerful whereas consumers purchase in small amounts and are scattered.

13. Describe some of your duties as consumers if you visit a shopping complex in your locality.

- i. We should chose a brand product which is reliable, worth buying, and is manufactured according to government specifications or which has an I.S.I. or Agmark certification.
- ii. Check the product thoroughly and know information about ingredients used, price, batch number, date of manufacture, side effect or health hazard, expiry date and the address of the manufacturer, after sales service etc.
- iii. Insist on cash bill and warrantee card if available and retain it till the expiry date.

14. What legal measures were taken by the government to empower the consumers in India?

- i. A major step taken in 1986 by the Indian government was the passing of the Consumer Protection Act 1986, popularly known as COPRA.
- ii. In October 2005, the Government of India enacted a law, popularly known as RTI (Right to Information) Act, which ensures its citizens, all the information about the functions of government departments.
- iii. Under COPRA, a three-tier quasi-judicial machinery at the district, state and national levels was set up for redressal of consumer disputes.
- iv. The district level court deals with the cases involving claims up to Rs 20 lakhs, the state level courts between Rs 20 lakhs and 1 crore and the national level court deals with cases involving claims exceeding Rs 1 crore. If a case is dismissed in district level court, the consumer can also appeal in state and then in National level courts.

15. By what means can consumers express their solidarity? .

- i. By observing 24 December as the National Consumers' Day
- ii. By forming Consumer Protection Councils,
- iii. By Seeking remedy through Consumer Courts in the case of violation of consumer laws, and
- iv. By getting consumer education and knowing the rights and duties, consumers can express their solidarity (Explain points)

16. What are the drawbacks of consumer movement in India?

- i. The consumer redressal process is becoming inefficient, expensive, and time consuming. Many a time, consumers are required to engage lawyers. These cases require time for filing and attending the court proceedings.
- ii. In most purchases cash memos are not issued hence, evidence is not easy to gather. Moreover, most purchases in the market are small retail sales.
- iii. The existing laws also are not very clear on the issue of compensation to consumers injured by defective products.
- iv. After 20 years of the enactment of COPRA, consumer awareness in India is spreading but slowly. Besides this the enforcement of laws that protect workers, especially in the unorganized sectors is weak. Similarly, rules and regulations for working of markets are often not followed.
- v. There are today more than 700 consumer groups in the country of which only about 20-25 are well organized and recognized for their work.

17. What is the difference between consumer protection council and consumer courts?

- iii. Consumer Protection Councils are formed by consumers of a city or an area.. It is a non-government voluntary organization. Consumer Courts are set up by the Government.
- iv. Consumer courts can fine or punish the sellers or manufacturers who follow unfair trade practices whereas Consumer protection Council can develop consumer awareness among the people and help consumers to lodge complaints against the sellers or manufacturers who follow unfair trade practices. In many cases, they represent individual consumers in the courts.

18. Explain with examples how the Government of India protects the interest of the consumers by standardization of products.

- i) **BIS:** Standardization of product is a technical measure. It is achieved through Bureau of Indian Standards (BIS) earlier known as Indian Standard Institute (ISI) for industrial and consumer goods. An ISI or BIS certified products are manufactured according to the specification given by the Government. Consumers can trust these products.
- ii) **AGMARK:** It is given for standardization for agricultural products. Agmark is implemented under the Agricultural produce (Grading and Marketing) Act , 1937, amended in 1986. It is implemented by the DMI- Directorate of Marketing and Intelligence, in the ministry of agriculture. Good products with high quality only will be given this standardization.

19. What is the three-tier quasi-judicial machinery set up for redressal of consumer disputes? (Examine the jurisdiction of the consumer courts in India.)

A three tier system of courts are set up in India at different levels.

- i) The District level Courts or **District Forum** deals with cases involving claims up to 20 lakhs.
- ii) The State level courts are known as **State Consumer Commission** and it deals with cases for claims between rupees 20 lakhs and 1 crore.
- iii) The **National Consumer Commission** is at the national level and it deals with cases for claims exceeding 1 crore of rupees. If a case is dismissed in District Forum, it can appeal in the State level courts and later at the national level courts.

20. Analyze the meaning of right to choose provided under Consumer Protection Act.

Right to choose- It is the assurance of availability of goods and services with quality at competitive prices.

- i. The consumers can choose any product of any brand that gives him the maximum satisfaction.
- ii. It is the right of the consumers to choose a product, which is durable, economical, and worth buying.
- iii. Consumers can choose a product that assures quality and provides after sale services at a fair price.
- iv. No seller can force a consumer to buy a product which the consumer doesn't like. There are situations like the gas connection will be provided only if the consumers purchase gas stoves from the dealer. It goes against the right to choose.

21. Explain with three suitable examples the meaning of "right to be informed" as provided under Consumer Protection Act.

- i. It is the right of the consumer to get information about ingredients used, price, batch number, date of manufacture, expiry date and the address of the manufacturer, after sales service etc. of a product.
- ii. When we buy medicines, on the packets, we find 'directions for proper use' and information relating to side effects and risks associated with usage of that medicine. When we buy garments, we find information on 'instructions for washing'.
- iii. It helps consumers to choose the best product after knowing the information given by different products. It helps the consumers to use the product effectively.
- iv. It complies the right of the consumers to be informed and to seek remedy through courts. Rules are made because it is the right of consumers to be informed. Consumers can complain and ask for compensation or replacement if the product proves defective.
- v. Similarly consumers can protest and complain if some one sells goods at more than the MRP.(Maximum Retail Price) (any three)

22. Critically examine the growth of consumer movements in India.

- i. In India, the consumer movement as a 'social force' originated with the necessity of protecting and promoting the interests of consumers against unethical and unfair trade practices.
- ii. Whenever a complaint regarding goods or service is made, the seller tries to shift all the responsibility on to the buyer.
- iii. Rampant (unchecked) food shortages, hoarding, black marketing, adulteration of food items gave birth to the consumer movement in an organized form in the 1960s.
- iv. Till the 1970s, consumer organizations were largely engaged in writing articles and holding exhibitions. They formed consumer groups to look into the malpractices in ration shops and overcrowding in the road passenger transport only..
- v. More recently, India witnessed an upsurge in the number of consumer groups. They make consumers aware of their rights and duties and guide them to redress their grievances.
- vi. There are today more than 700 consumer groups in the country of which only about 20-25 are well organized and recognized for their work.
- vii. Under the Consumer Protection Act (COPRA), a three-tier quasi-judicial machinery at the district, state and national levels was set up for redressal of consumer disputes.
- viii. The district level court deals with the cases involving claims up to Rs 20 lakhs, the state level courts between Rs 20 lakhs and 1 crore and the national level court deals with cases involving claims exceeding Rs 1 crore. If a case is dismissed in district level court, the consumer can also appeal in state and then in National level courts.

23. What is the importance of logos and certification? How does it help consumers?

- i. Logos and certification help consumers to get assured of quality while purchasing goods and services. The organizations that monitor and issue these certifications allow producers to produce according to government specifications and to use their logos for their products.
- ii. It is not compulsory that all producers follow standards in their production. However for some products that affect the health and safety of consumers or of products of mass consumption like LPG cylinders, cement, food colours etc it is mandatory on the part of the producers to get certified by these organizations.

24. ‘Consumer movements can be effective only with the active involvement of the consumers’. Support the statement with two arguments.

- i. The Indian government has enacted the Consumer Protection Act 1986. It can be implemented effectively only with participation of people. People should be aware of their rights and duties. They should be vigilant in the market against any unethical practices.
- ii. More and more consumer protection councils should be formed in town and cities to make people aware of consumer exploitation and consumers should lodge complaints against incidence of exploitation. It is the ignorance and illiteracy of the consumers that the traders exploit in the market.
- iii. Consumers should observe 24 December as the National Consumers’ Day with vigour and zeal.

25. What are the institutions set up under COPRA to redress grievances? Explain.

Answer 19 & 18

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