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 was “half as much as the grain”.

There can be other rates too, such as ‘equal to the grain’.

In some villages of Sikakulum 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 each 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 blacksmith does whatever is expected of him without asking for cash payment.

Other ways of exchange evolved that we will discuss later. Some of them are:

- In a barter system how do you pay a person who cuts your hair? Discuss.
- In the above example, complete the conversation so that they are able to trade.
- In a barter system how do you pay a person who cuts your hair? Discuss.
- If money was not used by you or any of the traders in your village, do you think money can act as a measure of value of goods and services? Explain.
These goldsmiths would also give loans and have branches in many cities leading to a new system of paper money or hundis. For example Somu is a cloth merchant of Vizianagaram, he has to go to Hyderabad to buy machinery from Chandra. It has become a dangerous journey to carry gold coins anywhere. He never kept his gold coins with him. So he gave his gold coins to a merchant in Vizianagaram, who promised to pay him on demand. Somu was now sure that he could safely withdraw his gold coins any time he wanted. The merchant promises to give back the gold coins when ever requested by Somu. The merchant is trusted for always paying up money received by him in exchange for gold coins. This is a model of how it was earlier in the money system of ancient times. Somu’s goldsmith also kept some receipts in his name. The receipt would say, “I promise to pay 10 gold coins.” Now Somu buys the machines from Chandra. He gives the goldsmith’s receipt to Chandra and tells him to collect the 10 gold coins from the goldsmith who has an office in 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 the 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 receipts have now circulated in the community, 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.

The early bankers in India such as Jangajee of Bengal, Shudda of Patna, Anunji Nathji of Surat, Chettiar of Madras enjoyed such wealth and reputation that 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 1600, Amsterdam was a major trading centre in Europe. Here there were 846 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.

### 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 counter 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 people make money electronically into Kancharla Sujatha. So he gives her a crossed cheque in the name of Kancharla Sujatha. Whenever required he could ask for the receipt of the goldsmith work as money?

- **Can you think of situations when this would 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, what can be 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

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

- **Should you keep your 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 earn you interest.

#### 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 earn you interest.

#### 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 festivities. Saving money in a bank account helps you smooth out your income.

#### Money is safe in a bank. Please check, if the bank in which you intend to keep your hard earned money is licenced, if it is insured. Is the bank a member of the Deposit Insurance and Credit Guarantee Corporation?

#### The bank gives you a Cheque book. What is the difference between a savings account and a current account?

#### 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 her 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 out, cheques are very important as a medium for transactions. You can see an example (page 85) of both a cheque in a notebook and a Cheque in a bank account. When you want to give someone money, 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 her 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 out, cheques are very important as a medium for transactions. You can see an example (page 85) of both a cheque in a notebook and a Cheque in a bank account.
Online Banking

Nowadays computers and internet 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, investment, applying for repaying loans and payments of electricity, phone and other utility bills.

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 will pay them their money on demand, banks realised that they only require a small proportion of the deposits as cash so that many people will withdraw money from a bank.

With internet banking, a customer can save from hassles of travelling, paperwork and other kind of stuff. If you have a phone bill, you can access their account and transfer funds, pay bills, etc. People with hectic schedules prefer internet banking.

Manaswini’s grandfather wanted to give her a gift. So he gave her a Fixed Deposit certificate for Rs. 10,000. “It will grow enough after five years to pay for your college admission,” 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.

Banking Services

Fixed Deposit

S.. Type Loan Duration Documents  Interest Mode of Security, Amount

1. V ehicle
2. H ouse
3. V iew House

A Fixed Deposit or a Term Deposit

Maxs will ensure that loans are paid back. 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.

Visit a commercial bank which is near to your locality and fill up the following table:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Type of loan</th>
<th>Loan amount</th>
<th>Duration of loan</th>
<th>Documents required</th>
<th>Interest rate</th>
<th>Mode of payment</th>
<th>Security, if any</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Vehicle</td>
<td>10,000</td>
<td>3 months</td>
<td>1</td>
<td>6%</td>
<td>Reimbursement</td>
<td>Nil</td>
</tr>
<tr>
<td>2</td>
<td>House</td>
<td>20,000</td>
<td>5 years</td>
<td>2</td>
<td>8%</td>
<td>Bank Guarantee</td>
<td>Nil</td>
</tr>
<tr>
<td>3</td>
<td>View House</td>
<td>5,000</td>
<td>2 years</td>
<td>3</td>
<td>7%</td>
<td>Bank Guarantee</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Types of Loans

Deposits

1. Barter
2. Forms of money
3. Savings

1. Will the same rate of interest be charged for all types of borrowers from a bank?
2. What will happen if some borrowers do not repay the bank loan?
3. Suppose you need Rs. 2000. You fill a cheque, and give it to your sister and send her to get the money in cash.
4. In what ways have cheques made exchange of money more convenient?
5. 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?

6. 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?

7. 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?

8. 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?

9. 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?

10. Read the paragraphs under the header ‘Types of Loans’ and answer the following:

   a) What sort of loans are more in your area?

   b) Do you feel that the loans taken from SHGs are helpful to the members? How?

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 NEF 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/ online transaction etc. Find out.

   f) For the person receiving the money what is the advantage of online transaction compared to a cheque?

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