

Note on The Market of Credit:

Both land and labour are used in rural agricultural field. There is another input which determines the functioning of both the markets of land and labour. The input is capital or credit. The market for capital or credit is very important for the working of the markets of land and labour. The capital market is of three types. These are (a) market for fixed capital. In the market there is demand for capital for establishing a new factory or expanding the existing business establishment. Capital is required for purchasing new machines, warehouse, and so on. (b) market for working capital. Capital is demanded for production activity like purchasing seed, fertilizers, pesticides, etc. (c) Capital market for consumption. Capital is demanded for meeting daily expenses for consumption. Also, it is required at the time of illness, and wedding, etc. Fixed capital determines the growth of an economy while working capital and consumption capital supports the poor and disadvantaged. Credit lenders are of two types. These are (i) Formal lenders. They are govt banks, commercial banks, and so on. They are reluctant to provide loan to the rural poor farmers. It is because they do not have any information regarding the poor farmers. They are not sure whether the loan (provided for the purpose of production) amount is used for this purpose or spent for other else. So, there is a risk of default. The formal institutions provide loan to the rich farmers against collateral security. Informal institutions come forward to advance loan to the poor farmers. Informal lenders are landlord, shopkeeper, traders. The lenders provide loans against small piece of land of the poor farmers. The lenders charge very high rate of interest for their loan or share agricultural produce at the discount price or labour services at the rate of wage lower than market rate. The lenders have more information about borrowers in their locality.