



Image from: [UK 'official' interest rate 1984-2004. in Collins Dictionary of Business](#)

Summary Article: **credit**

From *The Columbia Encyclopedia*

granting of goods, services, or money in return for a promise of future payment. Most credit is accompanied by an interest charge, which usually makes the future payment greater than an immediate payment would have been. The credit system is founded upon the lender's confidence in the borrower or in his collateral and general possessions. Credit may be classified according to the industry using it, its quality or liquidity, or the length of time for which it is extended. Basically there are two kinds, business and consumer. The chief function of business credit is the transference of capital from those

who own it to those who can use it, in the expectation that the profit from its use will exceed the interest payable on the loan. Thus business credit increases the productive power of capital. Consumer credit permits the purchase of retail commodities without the use of cash or with the use of relatively little cash. It is estimated that some 90% of all wholesalers' and manufacturers' sales, and more than 30% of all retail sales are made on a credit basis. In the larger banks, credit-analysis departments determine the amount of credit that may safely be given to loan applicants. Data as to credit risk are supplied by agencies organized for that purpose. The chief agency in the United States is Dun and Bradstreet, formed by a merger (1933) of R. G. Dun & Company (1841) and the Bradstreet Company (1849). If more credit is granted than the community can liquidate, there is inflation; if too little is granted, there is deflation. A lack of business confidence may cause credit to dissolve, thereby contributing to economic crises, panics, and depressions. In bookkeeping, the credit side is the side of the account on which payments are entered; hence, the term *credit* is sometimes applied to the payments themselves. See credit card; debt; debt, public; installment buying and selling.

See Juster, F. T. , Household Capital Formation and Financing, 1897-1962 (1966);
Dunkman, W. E. , Money, Credit, and Banking (1970);
Ando, F. , An Analysis of Access to Bank Credit (1988).

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