Exercise walk-through

Money and banking ▪ 3.1

eXercise

You must be able to

- state the four functions of money
- state the characteristics of good money
- explain the roles of the central bank and commercial banks

Method — What money does

*Money solves the problem of **barter** 物物交换*

- **Four functions: medium of exchange 交换媒介, store of value 价值储藏, unit of account 记账单位, means of deferred payment 延期支付手段.**
- **Characteristics:** durable, portable, divisible, limited in supply, hard to copy, accepted.
- **Central bank 中央银行**: issues notes, sets **interest rates 利率**. **Commercial banks 商业银行**: keep savings, lend, allow payments.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

Method — What money does

Medium of exchange

swap it for any good

Store of value

keeps its worth over time

Unit of account

measures and compares prices

Means of deferred payment

lets you buy now, pay later

Money's four functions

Practice 2.1 ▪ 2 marks

State the four functions of money.

Solution 2.1

Method: What money does

Worked steps

medium of exchange; store of value; unit of account; means of deferred payment (2 for all four; 1 for two or three).

Practice 2.2 ▪ 2 marks

Identify two characteristics of good money.

Solution 2.2

Method: What money does

Worked steps

any two of: durable; portable; divisible; limited in supply; hard to copy; accepted $(1 + 1)$.

Practice 2.3 ▪ 1 mark

State one role of a central bank.

Solution 2.3

Method: What money does

Worked steps

any one of: issues banknotes; sets interest rates; looks after the banking system (1).

Exam-style 3.1 ▪ 1 mark

Money acts as a **store of value** because it:

A can be swapped for goods

B keeps its value to be spent later

C measures the value of things

D lets people buy now and pay later

Solution 3.1

Method: What money does

A can be swapped for goods

B keeps its value to be spent later ✓

C measures the value of things

D lets people buy now and pay later

Worked steps

B. A store of value keeps its value to be spent later.

Exam-style 3.2 ▪ 4 marks

Explain why money is better than barter as a way to trade.

Solution 3.2

Method: What money does

Worked steps

[4] K 1 + An up to 3 — with barter you must find someone who has what you want *and* wants what you have (a "double coincidence of wants") → this is slow and difficult → money is accepted by everyone as a medium of exchange → so you can sell for money and buy what you need from anyone, making trade much easier.

Exam-style 3.3 ▪ 6 marks

Analyse the difference between the roles of a central bank and a commercial bank.

Solution 3.3

Method: What money does

Worked steps

[6] K/App/An — a central bank is the government's bank: there is one per country, and it issues notes, sets interest rates and oversees the whole banking system. A commercial bank is an ordinary bank used by people and firms: it keeps savings safe, lends money and allows payments $\rightarrow$ so the central bank runs and controls the system, while commercial banks serve customers within it.