Solutions

Economics answers are marked by **level of response** against the assessment objectives: award **AO1** knowledge, **AO2** application, **AO3** analysis and **AO4** evaluation.

Each answer shows the steps, then the **result**.

2.1

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

2.2

- the demand to hold money rather than other assets, because of its liquidity (the ability to spend it at once) (2 for a clear definition; 1 for a partial idea)

2.3

- the risk that a party takes bigger risks because it expects to be protected from the consequences (e.g. a bank expecting a bailout) (2 for a clear definition; 1 for a partial idea)

3.1 C

- A factor of production is not a function of money

3.2

- *[6]* AO1 1 + AO3 up to 5 — with money demand (liquidity preference) downward-sloping, a larger money supply means there is more money than people wish to hold at the current rate
- they lend the surplus, bidding the interest rate down
- the rate falls until demand for money equals the new, larger supply

3.3

- *[12]* AO1/AO2/AO3 up to 8 + AO4 up to 4. **For not rescuing:** bailouts create moral hazard — banks lend recklessly expecting rescue, raising future risk. **Against:** letting a major bank fail can trigger a wider financial crisis, freezing lending and harming the whole economy. Judgement: a blanket “never rescue” rule is risky; the better answer is to rescue only where failure threatens the system, while adding regulation to limit moral hazard — it depends on the bank’s systemic importance