A-LEVEL ECONOMICS • EXERCISE SHEET

9.4 Money and banking

Name: ______________ Class: __________ Date: ____________ **Total: 25 marks**

KEY WORDS liquidity 流动性 • interest rate 利率 • liquidity preference 流动性偏好 • money supply 货币供给 • moral hazard 道德风险

Objective

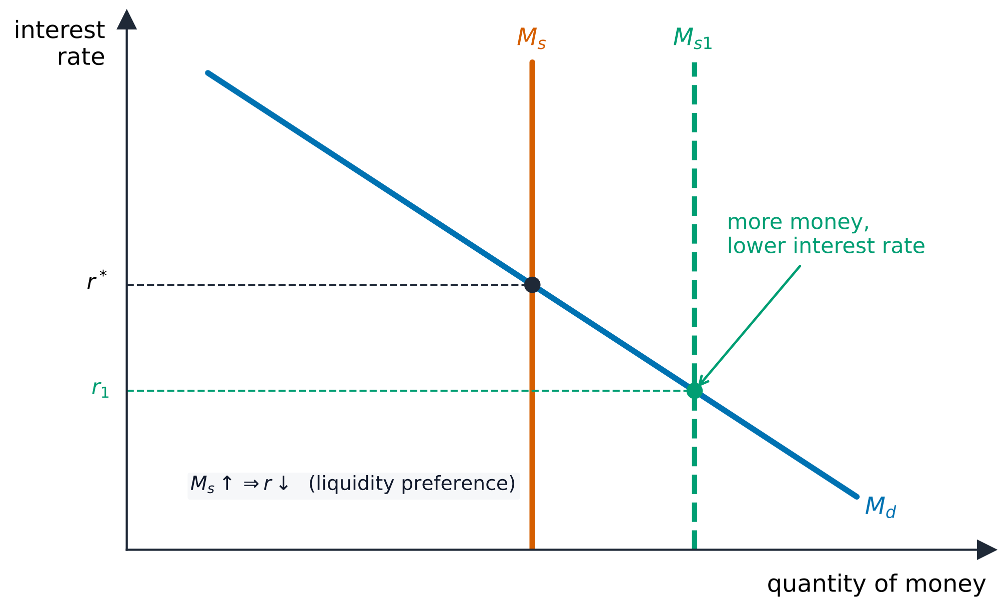
Build the skills to answer exam questions on **money and banking 货币与银行** — the **functions of money 货币职能**, the role of the **central and commercial banks 中央与商业银行**, **liquidity preference 流动性偏好**, and **moral hazard 道德风险**.

You must be able to:

- state the four functions of money
- explain the roles of central and commercial banks
- analyse how the interest rate is set and the risk of moral hazard

1 Worked examples

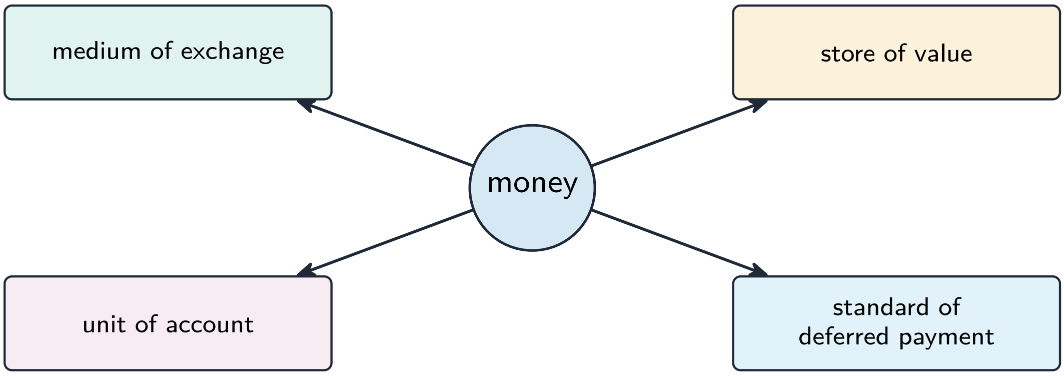
■ Money and the money market



A larger money supply tends to lower the interest rate

- **Four functions of money: medium of exchange 交换媒介, store of value 价值储藏, unit of account 记账单位, standard of deferred payment 延期支**

付标准.



The four functions of money, which a definition question expects you to name

- **Central bank** 中央银行: issues notes, runs monetary policy, **lender of last resort** 最后贷款人. **Commercial banks** create money by lending.
- **Liquidity preference** 流动性偏好: the demand to hold money → with money supply, sets the **interest rate** 利率.
- **Moral hazard** 道德风险: banks take bigger risks if they expect a bailout.

Answer shapes: AO1 + AO2 + AO3 (analysis) + AO4 (a supported judgement *in context*).

2 Practice

2.1 State the four functions of money. [2]

2.2 Define the term *liquidity preference.* [2]

2.3 Define the term *moral hazard.* [2]

3 Exam-style questions

3.1 Which is **not** a function of money? [1]

- **A** a medium of exchange
- **B** a store of value
- **C** a factor of production
- **D** a unit of account

3.2 Explain how an increase in the money supply affects the interest rate. [6]

3.3 Discuss whether moral hazard means governments should never rescue failing banks. [12]