

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

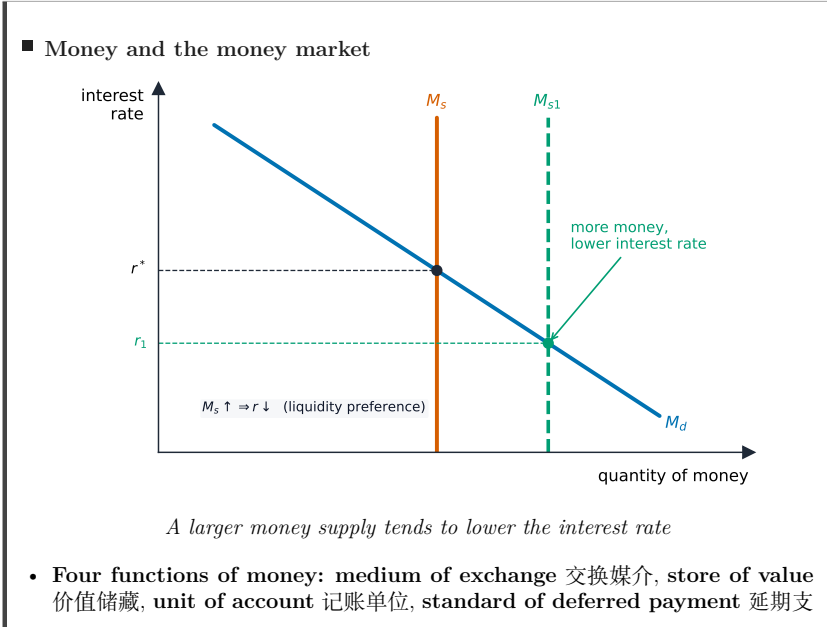
Objective

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.

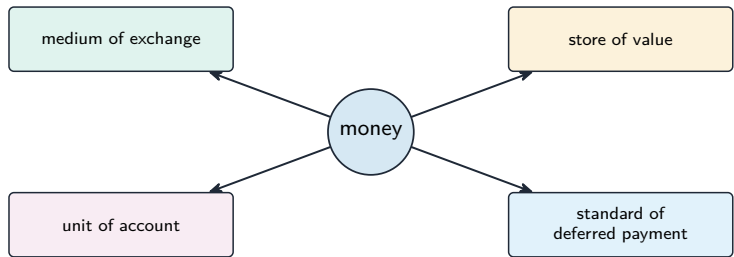
You must be able to:

- 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



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

B

C

D
- 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]