

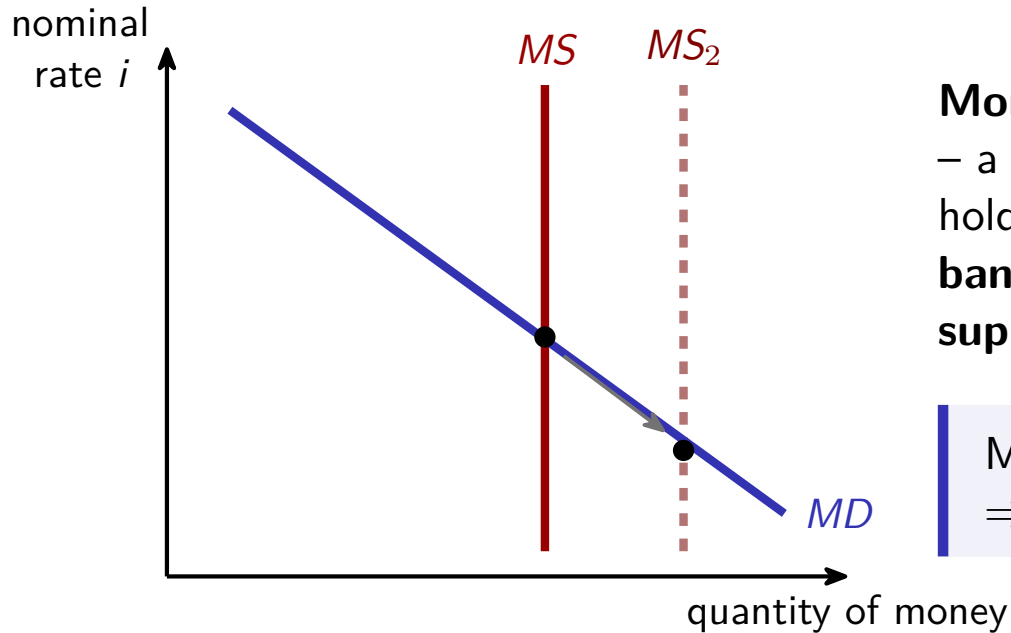
Exercise walk-through

4.3

Definition, Measurement, and Functions of Money

AP Macroeconomics

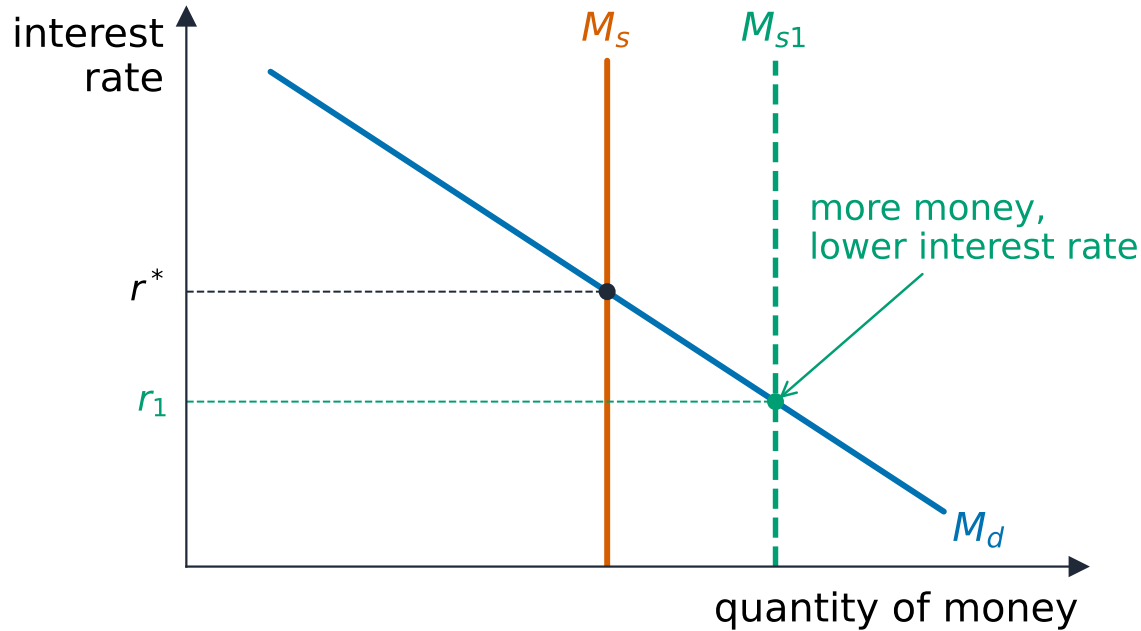
The money market



Money demand slopes **down**
– a high rate is the opportunity cost of holding cash. The **central bank** sets **money supply** : a **vertical** line.

More money supply ($MS \rightarrow MS_2$)
 $\Rightarrow$ the interest rate **falls**.

The interest rate is set by the money market



The interest rate is set by the demand for and supply of money

Exercises 2.1-2.3

2.1 State the three functions of money.

[2]

2.2 State which is more liquid, M1 or M2.

[1]

2.3 State the difference between commodity money and fiat money.

[2]

Exercises 2.1-2.3

2.1 State the three functions of money. [2]

2.1

- medium of exchange, store of value, unit of account
-

2.2 State which is more liquid, M1 or M2. [1]

2.2

- M1
-

2.3 State the difference between commodity money and fiat money. [2]

2.3

- commodity money has intrinsic value of its own; fiat money has value only because the government declares it legal tender

Exercises 3.1-3.2

3.1 Using money as a “unit of account” means it is used to

[1]

☐

A store wealth over time

B measure and compare prices

C earn interest

D back the currency with gold

3.2 Fiat money has value because

[1]

☐

A it is made of gold

B the government declares it legal tender

C it is naturally rare

D it earns interest

Exercises 3.1-3.2

3.1 Using money as a “unit of account” means it is used to

[1]

☐

- A store wealth over time
- B measure and compare prices
- C earn interest
- D back the currency with gold

3.1 B

- measure and compare prices.

3.2 Fiat money has value because

[1]

☐

- A it is made of gold
- B the government declares it legal tender
- C it is naturally rare
- D it earns interest

3.2 B

- the government declares it legal tender.

Exercise 3.3 (a)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(a) Name the money function used in **pricing** goods.

[1]

Exercise 3.3 (a)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(a) Name the money function used in **pricing** goods. [1]

(a)

- unit of account

Exercise 3.3 (b)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(b) Name the function used in **accepting cash**.

[1]

Exercise 3.3 (b)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(b) Name the function used in **accepting cash**.

[1]

(b)

- medium of exchange

Exercise 3.3 (c)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(c) Name the function used in **saving**.

[1]

Exercise 3.3 (c)

3.3 A shopkeeper prices goods, accepts cash for them, and keeps takings in a savings account.

(c) Name the function used in **saving**.

[1]

(c)

- store of value