

4 Money and the money market – Part 1

—Answers

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Work through these after you have tried the questions yourself.

2.1 a medium of exchange, a unit of account, and a store of value.

2.2 the interest rate falls (the money supply line shifts right).

2.3 $8\% - 3\% = 5\%$.

2.4 $5\% - 5\% = 0\%$ —the savings earn no gain in real purchasing power.

2.5 it shows the true gain (or cost) after adjusting for inflation, which is what actually affects buying power.