AP MACROECONOMICS • HOLIDAY HOMEWORK 假期作业

4 Money and the money market – Part 1

Name: ____________ Class: ________ Date: __________

Vocabulary 词汇

Write each word three times. 把每个单词抄写三遍。

English	中文	Write it 3 times (English)
Money	货币	
money market	货币市场	

Recall

You use money every day:

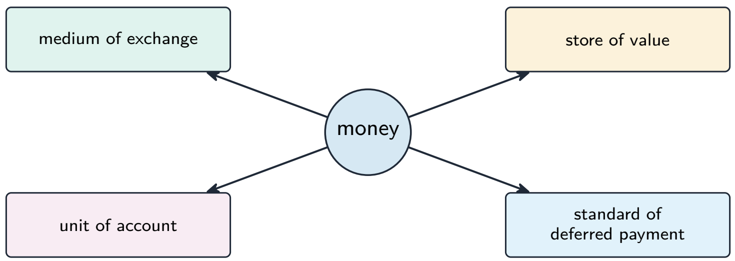
- Money lets you buy things without swapping goods directly (barter).
- Banks keep your savings and lend money to others.
- Interest is the price of borrowing money.

This sheet lines up what money is and how its price is set. Each idea has a worked example.

New ideas

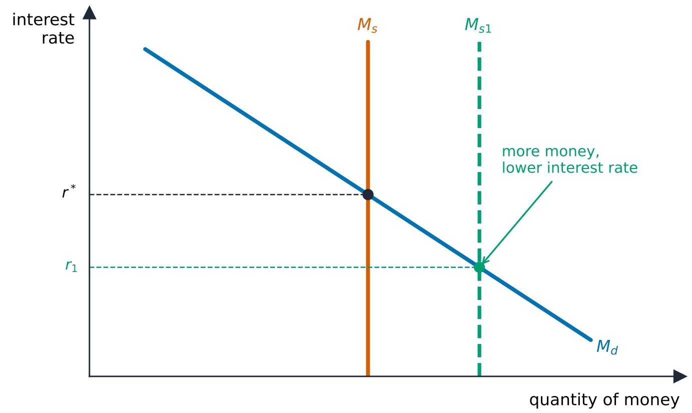
1 What money does

Money 货币 has three jobs: a **medium of exchange** (buying things), a **unit of account** (measuring value), and a **store of value** (holding value over time).



2 The money market

The **money market** 货币市场 sets the **interest rate** – the price of holding money. Money **demand** slopes down (a higher rate makes holding money costlier), and money **supply** is set by the central bank.



3 More money, lower rates

If the central bank increases the money supply, the supply line shifts right and the interest rate **falls**. Less money supply pushes the rate **up**.

4 Nominal and real interest

The **nominal interest rate** is the stated rate; the **real interest rate** subtracts inflation:

$$\text{real rate} \approx \text{nominal rate} - \text{inflation}.$$

Worked example. A loan at 6% with inflation of 2% has a real rate of $6\% - 2\% = 4\%$.

Watch out: what matters for borrowers and savers is the **real** interest rate (after

> inflation), not the nominal rate. A 6% nominal rate is barely positive if inflation is also near 6%.

Practice

Try these in order. The methods are all above.

2.1 State the three functions of money. [3]

2.2 State what happens to the interest rate when the central bank increases the money supply. [2]

2.3 A loan has a nominal rate of 8% and inflation is 3%. Find the real interest rate. [2]

2.4 A savings account pays 5% but inflation is 5%. Find the real interest rate and state what it means. [2]

2.5 State why the real interest rate matters more than the nominal rate. [1]