

Exercise walk-through

3.2

Households

IGCSE Economics

Money and banking

Money beats **barter**. Its four jobs: medium of exchange, store of value, unit of account, deferred payment. A

central bank manages monetary policy and serves government/banks;

commercial banks take deposits, lend and arrange payments.



Money is anything widely accepted in trade

Money and banking – four functions

Function	Original example: identify the job money performs
Medium of exchange	You sell bread for money, then buy rice without finding a rice seller who wants bread.
Store of value	You hold £20 to spend next month; inflation may reduce what it buys.
Unit of account	Prices of £2 and £3 let you compare loaves.
Means of deferred payment	A loan contract states a future repayment of £100.

One payment can involve several functions. Explain the function the question asks about; saving money does not guarantee constant purchasing power.

Why money replaced barter, and what it must be

barter

swapping goods directly – and it needs a **double coincidence of wants**: you must find someone with what you want *and* who wants what you have

durable

it lasts a long time

portable

easy to carry

divisible

can be split into small amounts for small payments

acceptable

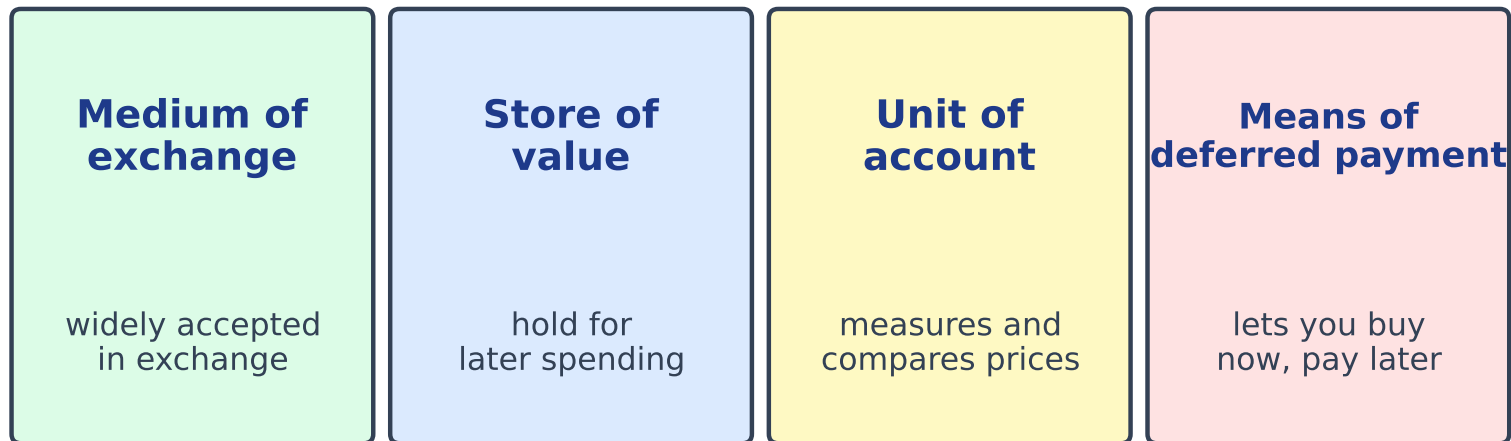
widely accepted in payment

limited in supply

supply is controlled, and it is hard to fake

Explain how a characteristic helps money work: divisibility permits small payments; durability permits later use.

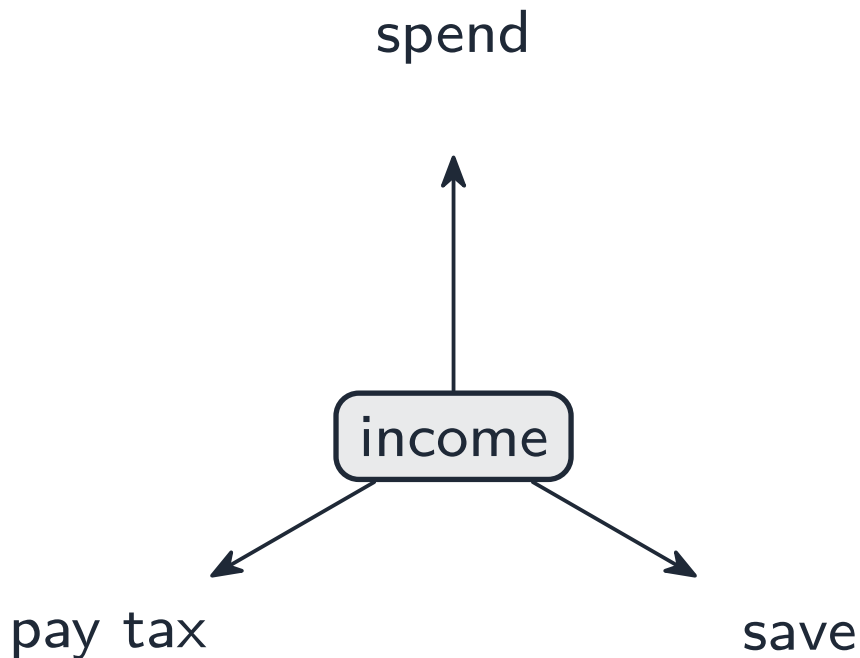
Money and banking – four functions, in detail



Explain the relevant function; inflation can reduce purchasing power

Money's four functions: a medium of exchange, a store of value, a unit of account, and a means of deferred payment.

Households



A **household** can spend, **save** or pay tax.

Higher **interest rates** reward saving & make **borrowing** dearer; & greater **confidence** may raise spending. Households with little spare income may be unable to save more.

Exercises 2.1-2.3

2.1 Define the term *saving*.

[2]

2.2 State two things that influence how much a household saves.

[2]

2.3 State the effect of a rise in interest rates on household borrowing.

[1]

Exercises 2.1-2.3

2.1 Define the term *saving*. [2]

2.1

- **saving** is the part of income that is **not spent now** (K)
-

2.2 State two things that influence how much a household saves. [2]

2.2

- any **two** of: **income** / **interest rates** / **confidence** (K, K)
-

2.3 State the effect of a rise in interest rates on household borrowing. [1]

2.3

- higher interest rates make loans dearer
- **borrowing falls** (K)

Exercises 3.1·3.2

3.1 A rise in interest rates is most likely to:

[1]

☐

A raise borrowing and lower saving

B lower borrowing and raise saving

C raise both borrowing and saving

D have no effect

3.2 Explain why a household might save more when interest rates rise.

[4]

Exercises 3.1-3.2

3.1 A rise in interest rates is most likely to:

[1]

☐

- A raise borrowing and lower saving
- B lower borrowing and raise saving
- C raise both borrowing and saving
- D have no effect

3.1 B

- higher interest rates **lower borrowing** and **raise saving** (K)
- A is the opposite; C and D are false

3.2 Explain why a household might save more when interest rates rise.

[4]

3.2

- a higher interest rate means savers **earn more** (K)
- saving becomes more rewarding, and borrowing costs more (An)
- households save a **larger share** of their income (An)

Exercise 3.3

3.3 Analyse how a fall in consumer confidence would affect household spending and saving. [6]

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3.3

- confidence is a key influence on household choices (K)
- if people fear losing jobs, they spend less and borrow less, and save more as a **safety buffer** (An)
- falling confidence **lowers spending** and **raises saving** (which can slow the economy) (An)