

3.1 Money and banking

Name: _____ Class: _____ Date: _____ Total: 16 marks

KEY WORDS commercial banks • money • central bank
• medium of exchange • store of value

Objective

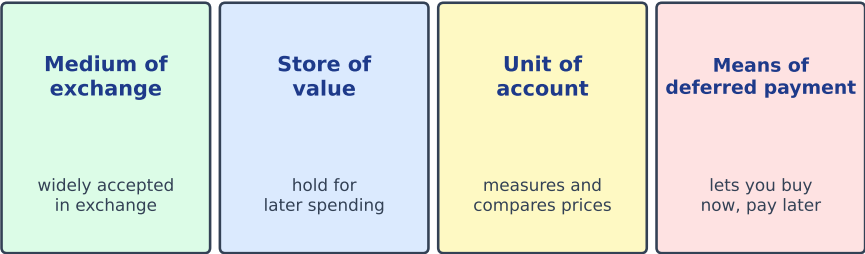
Build the skills to answer exam questions on **money and banking** – the **functions of money**, the **characteristics of money**, and the roles of the **central and commercial banks**.

You must be able to:

- state the four functions of money
- state the characteristics of good money
- explain the roles of the central bank and commercial banks

1 Key knowledge and worked examples

■ What money does



Explain the relevant function; inflation can reduce purchasing power

*Money solves the problem of **barter***

- **Four functions:** medium of exchange, store of value, unit of account, means of deferred payment.
- **Characteristics:** durable, portable, divisible, limited in supply, hard to copy, accepted.

- **Central bank**: issues notes, sets **interest rates**. **Commercial banks**: keep savings, lend, allow payments.

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 State the four functions of money. [2]

2.2 Identify two characteristics of good money. [2]

2.3 State one role of a central bank. [1]

3 Exam-style questions

3.1 Money acts as a **store of value** because it: [1]

- ☐
- A** can be swapped for goods
 - B** keeps its value to be spent later
 - C** measures the value of things
 - D** lets people buy now and pay later

3.2 Explain why money is better than barter as a way to trade. [4]

3.3 Analyse the difference between the roles of a central bank and a commercial bank.^[6]

Solutions

IGCSE Economics answers are marked by **level of response**: award **K** knowledge, **App** application, **An** analysis and **Ev** a justified judgement.

Each answer shows the steps, then the **result**.

2.1

- the four functions of money
- **medium of exchange**, **store of value**, **unit of account**, **means of deferred payment** (K)

2.2

- any **two** of: **durable** / **portable** / **divisible** / **limited in supply** / **hard to copy** / **accepted** (K, K)

2.3

- any **one** of: **issues banknotes** / **sets interest rates** / **looks after the banking system** (K)

3.1 B

- a **store of value** keeps its value to be spent **later** (K)
- A is a medium of exchange; C is a unit of account; D is deferred payment

3.2

- barter needs a **double coincidence of wants** – slow and difficult (K)
- money is accepted by everyone as a **medium of exchange** (An)
- you can sell for money and buy from anyone, so trade is much easier (An)

3.3

- a **central bank** is the government's bank: it issues notes, sets interest rates and oversees the system (K)
- a **commercial bank** serves people and firms: savings, loans and payments (An)
- the central bank **runs** the system; commercial banks **serve customers** within it (An)