

# 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

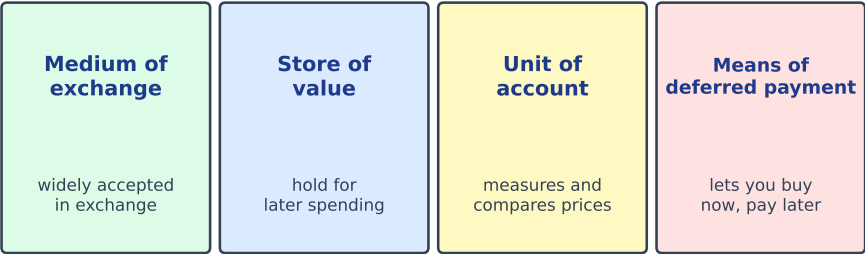
Build the skills to answer exam questions on **money and banking** – the **functions of money**, the **characteristics of money**, and the roles of the **central and commercial banks**.

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]

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