## Solutions

Marking: **K** knowledge, **App** use of the case or data, **An** analysis (a chain of reasons: cause, then effect), **Ev** evaluation (a judgement with a reason). In calculations, **M1** is for the method and **A1** for the answer; **B1** is an independent mark.

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

**2.1**

(a) medium of exchange

(b) unit of account

(c) store of value

**2.2**

multiplier $\dfrac{1}{0.2} = \mathbf{5}$

deposits £**500**

**2.3**

reserves £**100**

loans £**900**

**2.4**

$m = \dfrac{1.2}{0.3} = \mathbf{4}$

money supply $4 \times 50 =$ £**200**bn

**3.1**

(a) 400, 320, 256

(b) $500 \times \dfrac{1}{0.2} =$ £**2**,**500**

(c) $m = \dfrac{1.25}{0.45} = \mathbf{2.78}$; money $500 \times 2.78 =$ £**1**,**389**

**3.2**

(a) before $\dfrac{1.04}{1.03} - 1 = \mathbf{0.97}\%$; after $\dfrac{1.05}{1.03} - 1 = \mathbf{1.94}\%$

(b) banks raise loan and mortgage rates, so borrowing costs more in real terms; firms invest less and households spend less on homes and cars, so demand falls; prices respond slowly: loans are fixed for a time and firms change prices only now and then, so the effect takes a year or more

**3.3**

(a) $m = 3.25$; money £**650**bn

(b) tool 1: base 180; money $3.25 \times 180 =$ £**585**bn; tool 2: $m = \dfrac{1.3}{0.45} = 2.89$; money £**578**bn



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(c) both cut money by a similar amount (App); bond sales can be small and reversed day by day, while a reserve-ratio change hits every bank at once and squeezes lending sharply (An); judgement: use bond sales (Ev)