

## Quick Answers

### Question 1

Identify two characteristics of money.

One mark each for any two from:

- general acceptability/limited in supply
- portable
- divisible
- recognisable
- homogeneous

### Question 2

State two functions of a commercial bank.

Two from:

- lending
- accepting deposits
- allowing customers to make payments
- looking after valuables
- giving financial advice
- providing insurance
- exchanging foreign currency

### Guidance:

Internet banking alone is too vague

### Question 3

**State two functions, other than issuing banknotes and coins, of a central bank.**

**Two from:**

- manages monetary policy / sets the rate of interest
- manages the national debt
- controls the banking system
- banker to commercial banks
- banker to the government
- lender of last resort
- looks after reserves of gold and foreign currency

**Guidance**

Allow banker to the banks

*Question 4*

**Explain two functions of money**

- medium of exchange (1) avoids double coincidence of wants needed in barter/enables people to buy and sell products (1)
- unit of account / measure of value (1) easy to compare value of products / putting a value on products (1)
- store of value (1) for savings / future consumption / will not lose value (1)
- standard of deferred payment (1) credit / instalments/enable people to borrow and lend (1)

*Question 5*

**Discuss whether or not a central bank should reduce commercial bank lending.**

**Up to 3 marks for why it should:**

- Lowering consumer expenditure / investment by firms (1) may reduce demand-pull inflation (1) making exports more competitive (1).
- May prevent households and firms getting into debt (1) that they cannot repay banks (1) may avoid a financial crisis in the future (1).
- May reduce spending on imports (1) improve the current account position (1).

**Up to 3 marks for why it should not:**

- It may reduce consumer expenditure (1) investment (1) this will lower total (aggregate) demand (1) which may reduce economic growth (1).
- Some firms may go out of business (1) causing unemployment (1) results in poverty (1).
- Firms may not keep up with advances in technology (1) reduce international competitiveness (1) harm the current account position (1).
- Households may not be able to borrow to pay for their everyday living / their children's education / their higher education (1) lower their career prospects (1).

*Question 6*

**Identify two functions of money.**

- Medium of exchange
- Store of value
- Unit of account (measure of value)
- Standard of deferred payments

*Question 7*

**Explain two reasons why a central bank may want to reduce borrowing.**

- It may want to reduce the inflation rate (1) caused by too much demand arising from borrowing (1).

- To reduce disposable income (1) and reduce (demand-pull) inflation (1). it may want to reduce a current account deficit (1) people may be spending too much on imports (1).
- Over lending by commercial banks (1) puts banking system at risk (1).

### **Guidance**

- Allow explanation of why a high level of borrowing is bad for the economy, e.g. implication that the central bank intervenes to correct this.

### *Question 8*

**Discuss the advantages and disadvantages of the activities of commercial banks to an economy.**

#### **Up to 3 marks for advantages to an economy:**

- Lending (1) to consumers (1) enabling them to increase consumption (1) raising their living standards (1) and to firms (1) allowing them to invest (1) increase employment (1) increase output (1) expand into international markets (1) improve the current account of the balance of payments (1)
- Attract MNCs (1) by providing a range of services to these companies (1)
- Banks employ many people (1) keeping unemployment low (1)

#### **Up to 3 marks for disadvantages to an economy:**

- May encourage saving (1) decreasing consumption/total demand (1)
- Banks may fail (1) losing customers' money (1) risking damage to the economy / recession (1)
- May lend to risky businesses (1) which may cause fluctuations in output (1)
- May lend to individuals who cannot repay (1) pushing them into debt (1)
- May charge high interest rates (1) to gain high profits (1) which will increase firms' costs of production (1) and make it difficult for individuals to repay (1)
- May lend for purchase of imports (1) worsening the current account (1)
- Risk of inflation (1) if banks lend too much (1)

*Question 9*

**Analyse how a high rate of inflation affects the functions of money.**

- People may not want to save money (1) as it may lose value (1) stop acting as a store of value (1)
- People may not accept money as a payment (1) as it may lose value / people may not know what its value is (1) stop acting as a medium of exchange (1)
- People may not be willing to lend money (1) inflation rate may be higher than interest rate (1) stop acting as a standard of deferred payments (1)
- People may stop valuing products in monetary terms (1) due to instability of prices (1) stop acting as a unit of account / measure of value (1)

**Guidance**

- Maximum 2 marks for a list-like approach applied to high inflation
- Maximum 1 mark for a list of three or more functions of money

*Question 10*

**Discuss whether or not a central bank should limit the amount commercial banks can lend to its customers.**

**Up to 5 marks for why it should:**

- A function of a central bank maybe to control commercial bank lending (1)
- Unlimited loans could encourage people to borrow too much (1) they may get into debt (1)
- Some of the borrowers may not be able to pay back the loans (1) this could result in the banks collapsing (1) this could stop the economy working effectively (1)
- A limit on the amount lent could control total (aggregate) demand (1) and reduce inflation (1)
- A limit on bank lending could reduce spending on imports (1) this could improve the current account position on the balance of payments (1)

**Up to 5 marks for why it should not:**

- Some people who cannot borrow may not have sufficient purchasing power to afford e.g. an adequate amount of food/education for their children (1) move into poverty (1)
- Limiting loans to firms may cause some to close (1) causing unemployment (1)
- Some firms may not be able to expand (1) restricting economic growth (1)
- The limit may discourage MNCs from setting up in the country (1) foregoing the benefits MNCs may bring (1)
- State of economy (1) if in recession (1) limiting lending by banks could lead to loss of jobs (1)
- Unlimited loans could reduce the interest rate (1) this could increase economic growth/lower unemployment (1)
- May force some of the poor to borrow from unregulated lenders (1) causing them to get into further debt (1)

**Guidance**

- Each point may be credited only once, on either side of an argument, but separate development as to how/why the outcome may differ is to be rewarded.

*Question 11*

**Identify, using information from the extract, TWO functions of a commercial bank.**

- Providing savings accounts (1) lending (1) setting interest rates on loans (1)

**Guidance**

- If more than two given, just look at the first three

*Question 12*

**Define commercial bank.**

**Two marks from:**

- A financial institution (1) that offers services to people/households/firms (1)  
examples of services (1) that is profit orientated (1) (usually) in the private sector  
(1)

*Question 13*

**Identify two functions of a central bank.**

- Control money supply
- Issue notes
- Set interest rates
- Maintain price stability / low inflation
- Act as a lender of last resort / lend money to government / lends to commercial banks
- Ensure stability of financial system
- Manage foreign exchange reserves