

3.1 Money & Banking

Question Paper

Course	CIE IGCSE Economics
Section	3. Microeconomic Decision Makers
Topic	3.1 Money & Banking
Difficulty	Medium

Time allowed: 60
Score: /46
Percentage: /100

Question 1

Tanzania is a low-income country with relatively high import tariffs. Between 2012 and 2015, Tanzania experienced a high economic growth rate. This allowed the government to provide more public goods. The government also increased its investment in the merit goods of education and healthcare. Tanzania's central bank influenced household borrowing and spending with the aim of achieving price stability. As a result the country's inflation rate fell, with money losing less of its value.

Identify two characteristics of money.

[2 marks]

Question 2

Italy is home to the world's oldest bank and some of the world's oldest car producers. Internationally, both industries are facing a number of challenges. The wages of bank workers and car workers are increasing. Demand for bank loans and for cars is changing, in part, due to changes in population size. It is predicted that the price elasticity of demand (PED) for cars will also change in the future.

State two functions of a commercial bank.

[2 marks]

Question 3

It was announced in November 2016 that 500 and 1000 rupee banknotes could no longer be used in shops in India. These were replaced by the central bank, an institution that makes extensive use of division of labour. In India, cash is still an important form of money used in economic transactions. The replacement of banknotes put pressure on banking staff and other workers in the tertiary sector, and affected the general price level.

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

[2 marks]

Question 4

The Monetary Authority of Singapore (MAS), the government body which controls the monetary policy of the country, has allowed the Singapore dollar to appreciate. However, the high cost of the Singapore dollar has created a need for new incentives for firms, such as a reduction in taxes and granting subsidies.

Explain two functions of money.

[4 marks]

Question 5

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

Refer to the [source material](#) in your answers.

[5 marks]

Question 6

In February 2017, China's central bank raised the rate of interest. It wanted to reduce borrowing and the growth of the money supply, but it was worried that the rise in the interest rate might reduce the country's economic growth rate. The change in interest rate is likely to have increased the workload of skilled commercial bank workers.

Identify **two** functions of money.

[2 marks]

Question 7

In February 2017, China's central bank raised the rate of interest. It wanted to reduce borrowing and the growth of the money supply, but it was worried that the rise in the interest rate might reduce the country's economic growth rate. The change in interest rate is likely to have increased the workload of skilled commercial bank workers.

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

[4 marks]

Question 8

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

Refer to the [source material](#) in your answers.

[5 marks]

Question 9

Mexico has recently experienced relatively low inflation and the Mexican government wants to maintain this price stability. Despite this its currency has fallen in value with each Mexican peso exchanging for less foreign currency. The government is also trying to reduce pollution in the country. One key cause of pollution in Mexico is car travel. Driving has both private and external costs.

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

[6 marks]

Question 10

In 2016, the world shortage of peanuts increased their price. China, which has traditionally been a net exporter of peanuts, was about to become a net importer. South Africa, which is an exporter of high-quality, high-cost peanuts used in chocolate confectionery, experienced the worst drought on record. A higher number of South African farmers applied for bank loans in the same year.

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

[8 marks]

Question 11

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

Refer to the [source material](#) in your answers.

[2 marks]

Question 12

In February 2016, share prices on stock exchanges fell throughout the world. There were a number of reasons for this; including concerns about the slowdown in world growth, the possibility of deflation and unemployment, and fears that some commercial banks could go out of business.

Define commercial bank.

[2 marks]

Question 13

In early 2016, the central bank of the Republic of Turkey cut interest rates five times. This was despite an inflation rate of 7.6%. The economy had a combination of a low saving rate and weak investment. To stimulate economic growth the Turkish government announced a package of reforms including subsidies for research and investment.

Identify two functions of a central bank.

[2 marks]