

Cambridge IGCSE · Economics 0455 · Notes

Money and banking

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What you need to know

By the end of this topic you should be able to:

1. **Describe the forms money takes:** coins, banknotes and money held in bank accounts, and say why cheques and cards are ways of moving money rather than money itself.
2. **Explain the four functions of money:** what money does for an economy (medium of exchange, unit of account, store of value, standard of deferred payment).
3. **Explain the characteristics money needs** to do those jobs well: acceptable, durable, portable, divisible, uniform, limited in supply and recognisable.
4. **Explain the role of commercial banks** and why they matter to consumers (households), producers (firms) and the government.
5. **Explain the role of a central bank** and why it matters to the government, to commercial banks, and to consumers and producers.

0455 has no Core/Extended split, so all of this is for everyone. How the central bank uses interest rates and the money supply to steer the economy is taught in detail in the monetary policy topic; here you only need to know that running that policy is one of its jobs.

Understand it

Why money exists: the trouble with barter

Imagine an island with no money. A fisher who wants a pair of sandals must find a sandal-maker who, at that same moment, wants fish. This is **barter**, swapping goods directly, and it has three big problems:

- **Both sides must want what the other has** (a "double coincidence of wants"). Finding that match takes time and often fails.
- **There is no common measure of worth.** Every good has a price in terms of every other good. With 50 goods on the island, there are $\frac{50 \times 49}{2} = 1225$ different exchange rates to keep track of (fish for sandals, fish for rope, rope for sandals, ...). With money there are just 50 prices.
- **Goods are hard to split and to keep.** Half a goat is no use to anyone, and fish rot, so you can't save up for later.

Money solves all three. The fisher sells fish to anyone for money and uses the money to buy sandals from anyone. That is why every modern economy uses it: less time spent searching for trades means more time to specialise and produce.

The four jobs money does

Economists call these jobs the **functions** of money. Each one exists because it removes one of barter's headaches, so if you remember the island you can rebuild the list.

Function	The barter headache it removes	Everyday example
Medium of exchange	You no longer need one partner who both has what you want and wants what you have. You sell to one person and buy from someone else	A tailor sells a shirt at the market and later spends the cash on rice from a farmer who has no use for shirts
Unit of account (measure of value)	Instead of a price for every pair of goods, each good gets one price in the same units, so values line up side by side and records can be kept	A menu shows a curry at \$12 and a salad at \$8, so you see at once the curry costs 1.5 salads
Store of value (store of wealth)	Fish rot, but a sum of money can sit untouched and still buy things months later	A teenager puts some weekend pay aside each week towards a phone next year
Standard of deferred payment	A promise to "repay three goats next year" invites a fight over which goats. A debt written in money means exactly the same thing on the day it is settled	A student loan to be repaid in monthly amounts over ten years

Store of value is the job that is easiest to damage. When prices climb, a fixed sum buys a little less every month. Notes kept in a drawer earn nothing to make up for that, so in a period of fast price rises people shift their wealth into things whose prices climb as well, such as houses, land or gold. Lenders suffer for the same reason: the \$100 they get back next year buys less than the \$100 they handed over, so a debt fixed in money becomes a worse deal for them.

Keep two words apart. A **function** is something money *does* (it lets you save, it lets you compare). A **characteristic** is a quality money *has* (it is light, it lasts). "Portable" can never be a function.

What makes something good money

Almost anything can serve as money if people agree to it: salt, shells and cattle all have. Whether it serves *well* depends on three questions.

Will people take it?

- **Acceptability** matters most of all. A shopkeeper takes your note only because she is confident her supplier will take it from her. Once that confidence goes, the note is just paper.
- **Recognisability** protects that confidence. If forgeries were hard to spot, sellers would start checking every note or refusing large ones.

- **Limited supply** keeps each unit worth something. If anyone could produce more (pebbles from a beach, leaves from a tree), the amount would grow without end and each unit would buy almost nothing.

Can it be used in everyday trade?

- **Portability**: you need to have enough of it on you to go shopping. Herding cattle to market does not count.
- **Divisibility**: prices range from a sweet to a car, so money must break into small and large amounts that add up to any price. A cow can't be cut up to pay for a loaf.
- **Durability**: a coin may change hands thousands of times and also lie in a savings jar for years, so it must not rot, fade or fall apart. Fruit and fish fail at once.

Is every unit worth the same as every other?

- **Uniformity** (homogeneity): a seller should not care *which* \$10 note you hand over. Diamonds fail here, because two stones of the same size can be worth very different amounts.

The qualities connect back to the jobs. Durability is what lets money be a store of value; divisibility is what lets it price and pay for cheap and dear items alike, so it can be a unit of account and a medium of exchange.

Today's banknotes are worth almost nothing as paper (they have little **intrinsic value**), and no country now promises to swap them for gold. They still work, because the state makes them legal payment for debts and the central bank keeps the number printed under control, so people go on trusting and accepting them.

Coins beat notes on **durability**: metal survives for decades while paper tears and wears. Notes beat coins when you have to carry a large sum. Both come in several values, so both are divisible.

Forms of money

Money today comes in three forms:

- **coins** and **banknotes** (together called cash), which the central bank or the government puts into circulation;
- **bank deposits**, the balances in people's and firms' accounts at commercial banks. This is where most of a country's money sits. It has no physical form at all: it is a number in a bank's records, spent by card, phone or online transfer.

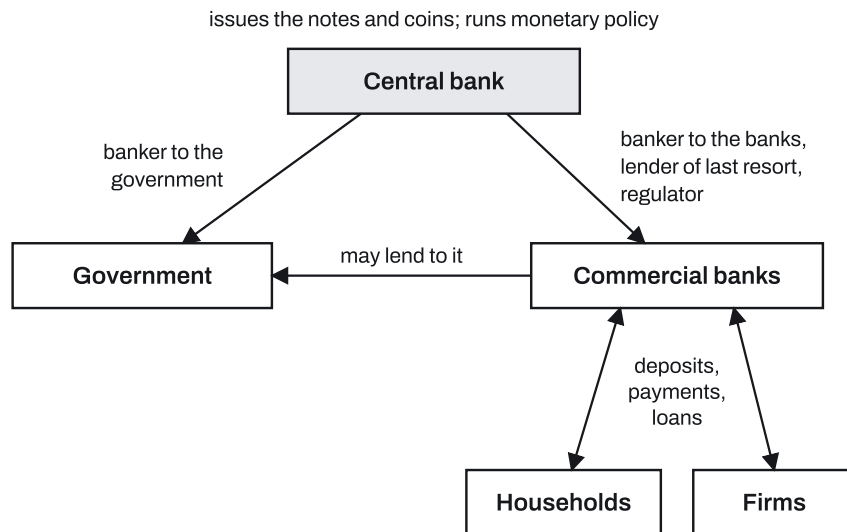
Societies have also used **commodities** such as salt, shells, cattle and gold, and some people now hold digital currencies, though few shops take them.

Cheques, debit cards, credit cards and phone payment apps are not money. Think of them as instructions that move a deposit from one account to another. A debit card with nothing in the account behind it buys nothing, and a credit card is really a way of borrowing. Examiners do not accept them as forms of money.

As card and phone payments spread, people need cash for fewer things, so its use falls. One thing only cash offers: the seller learns **nothing about who paid**, whereas every card or phone payment leaves a record tied to the buyer's account.

Commercial banks

A **commercial bank** is a bank that the public deals with: households, firms and the government. Most are **privately owned** (by shareholders) and aim to make a **profit**. They earn it mainly from the gap between the interest they charge borrowers and the lower interest they pay savers, plus fees for services.



Everything a commercial bank does comes down to three things it can do with money: **keep** it, **move** it and **lend** it. The same three services matter to every group, but for different reasons.

	Keep it (deposits)	Move it (payments)	Lend it
Households (consumers)	Mei's wages go into a current account ; money she won't need for a while sits in a savings account that pays interest, so putting money aside is rewarded	She pays rent by transfer and groceries by card, and buys euros before a holiday, without carrying cash	A mortgage lets her family buy a flat now and pay for it out of their salaries over 25 years; an overdraft covers a short gap before payday
Firms (producers)	A bakery's takings are safer in the bank than in the till overnight, and cash it won't need for months can earn interest	It pays its flour supplier and its staff straight from its account, and a customer abroad can pay it in another currency	A loan pays for a second oven the bakery couldn't afford from its own savings, so it can bake more; an overdraft keeps it going while a café that owes it money pays late
Government	Some state bodies and state-owned firms hold accounts with commercial banks	Every tax payment starts in someone's bank account, and the money the state sends out (pensions, nurses' pay) lands in bank accounts too	Banks buy government bonds , which is lending to the state; that can pay for a new hospital without an immediate tax rise

Around those three core services, banks sell extras for a fee. A couple planning for old age may pay for guidance on where to put their savings; a driver can buy car cover through the bank, which acts for an insurance company; a family can rent a locked box in the vault for jewellery and documents.

Why the government cares about commercial banks beyond its own account. Two links make them matter to the whole economy.

- **A loan creates money.** When a bank lends the bakery \$20,000, it doesn't pass on another customer's cash: it simply adds \$20,000 to the bakery's account. That new deposit is new money, and the bakery spends it on an oven, so the oven maker sells more and may take on staff, who spend their wages in turn. How freely banks lend therefore shapes how much money is in the economy and how fast it grows, and the government's tax receipts rise or fall with it.
- **They pass the central bank's decisions on.** Households and firms never borrow from the central bank. A change in its interest rate only reaches them because commercial banks reset their own loan and savings rates soon after, since the central bank's rate decides what money costs the banks themselves. Commercial banks are the pipes that monetary policy flows through.

Competition between banks. Why are customers better off when a country gains more banks? Look at it from a bank's side: every customer it keeps now has somewhere else to go, so it has to give them a reason to stay. It can do that in three ways.

- **A better price:** more interest for savers, less for borrowers, smaller fees. If Bank A pays 2.5% on savings and a newcomer pays 4%, savers move their money, so Bank A must raise its rate or lose deposits.
- **Easier to reach:** an app that opens an account in five minutes, a bank van that visits villages once a week, being willing to lend to someone with no borrowing record.
- **More useful:** things that make money simpler to manage, such as a free budgeting tool in its app, a savings pot that rounds up each card payment and saves the change, or staff who can explain a loan in the customer's own language. Telling people about these through advertising also brings customers in.

Price isn't all people weigh up when choosing a bank. They also care whether it seems safe and well run, whether its branches or app suit them, and whether their family already banks there.

Bank lending and the economy. Whether extra lending helps the economy depends on what happens to the money next. If firms use loans to buy machinery and households use them to buy homes and furniture, spending rises, so firms produce more and hire more, and the new machines let each worker produce more for years. But some of the money may leak away: spent on imported goods, it creates jobs abroad instead. If factories and workers are already busy, more spending just bids up prices (demand-pull inflation). And loans must be paid back: when borrowers take on more than they can manage, some stop repaying, banks make losses, and spending later falls as people cut back to clear their debts.

The central bank

A **central bank** is the bank that sits at the top of a country's money system, owned by the government. There is one for each country (or currency area), and you can't open an account there: the only customers are the state and the commercial banks. Its work makes sense if you ask what it is trying to protect.

The value of the money.

- It is the only body allowed to put new notes into circulation (coins may come from it or from a state mint). Because it controls how many exist, cash stays scarce, which is part of why people keep trusting it.
- It decides the main interest rate and influences how much money there is, usually to keep inflation low and steady (**price stability**). A higher rate makes loans dearer and saving more rewarding, so spending slows; a lower rate does the opposite.

The safety of the banks.

- It writes the rules banks must follow, such as how much they must keep in reserve, and sends inspectors to check, because a bank that gambles with savers' money puts everyone's deposits at risk.
- Every commercial bank has an account with it. When a customer of one bank pays a customer of another, the two banks settle the difference through these accounts.
- It is the **lender of last resort**. Picture a rumour sending crowds to a healthy bank to withdraw at once: the bank's money is tied up in loans, so it runs short of cash (a **liquidity crisis**), and no other bank will help. The central bank lends it what it needs to pay everyone, and the panic dies down. Its job is to stop a sound bank collapsing for lack of cash, not to save one that has simply made losses.

The state's finances.

- The government keeps its main account here. Money for teachers' salaries flows out of that account; a firm's company tax flows into it.
- When the state borrows, say to build a dam, the central bank handles the bonds it sells and keeps track of the total it owes (the **national debt**).

The currency's value abroad.

- It holds the country's reserves of gold and foreign currencies. If the currency is sinking fast, it can spend some of those reserves to buy its own currency, which props up the exchange rate.

What it does not do. Tax rates and government spending are **fiscal policy**, chosen by the government, not the central bank. And it doesn't serve households or ordinary firms: that is the commercial banks' job.

Why it matters to each group.

Group	What the central bank gives it
Consumers	Steady prices, so a month's wages buy about the same next year and savings are not eaten away; trust that a bank holding their money won't suddenly fail; notes that are hard to forge
Producers	Borrowing costs and prices they can predict, so it is safer to commit to a new factory or machine; an exchange rate that doesn't swing wildly, which helps firms that buy or sell abroad; banks that stay open and keep lending
Government	Somewhere to bank, a way to borrow and keep track of its debt, and a partner in keeping the economy stable

Group	What the central bank gives it
Commercial banks	A place to settle payments with each other, and help in a cash emergency

Central bank or commercial bank?

	Central bank	Commercial bank
How many	One per country	Many, competing
Who it serves	The government and the commercial banks	Households, firms, and sometimes the government
Money	Puts notes and coins into circulation	Holds deposits; every loan it makes adds a new deposit
Lending	Lender of last resort to banks; may lend to the government	Loans, overdrafts and mortgages to households and firms
Who owns it	The state (public sector)	Usually shareholders (private sector)
What it aims for	Stable prices and safe banks	Profit
Interest rates and currency	Sets the main interest rate; uses reserves to steady the exchange rate	Follows the central bank's rate; changes currency for customers

Key facts and formulas

This topic has no formula list in the exam. "Learn it" means you must remember it.

Formula or fact	Status
Functions of money: medium of exchange, unit of account (measure of value), store of value (wealth), standard of deferred payment	Learn it
Characteristics of money: acceptable, durable, portable, divisible, uniform, limited in supply, recognisable	Learn it
Forms of money: coins, banknotes, bank deposits. Cheques and cards are not money	Learn it
Interest earned = amount saved $\times$ interest rate	Learn it
Inflation above the interest rate means savings buy less: money is a worse store of value	Learn it
Commercial bank: private sector, profit, deals with households, firms and government	Learn it

Formula or fact	Status
Central bank: government-owned; issues currency, banker to government and banks, lender of last resort, regulator, monetary policy, reserves	Learn it
Central bank runs monetary policy, not fiscal policy	Learn it

How to do it

We have tagged 43 questions on this topic (2021–2026): 31 multiple choice on Paper 1 and 12 structured questions on Paper 2. Some multiple-choice questions were set on more than one paper, so 38 are different. Six questions mix two or more types (one Paper 2 question had parts on four of them), so the counts below add up to 51.

Question type	Questions
Identify or explain the roles of a central bank	13
Identify or explain the functions of money	11
Identify or explain the characteristics of money	8
Tell a central bank apart from a commercial bank	5
Explain the services commercial banks give households, firms and government	5
Identify forms of money and ways of paying	4
Explain how more banks or bank competition affects customers	3
Analyse or discuss the effects of more bank lending on the economy	2

Written answers. Identify (2 marks) wants two short answers, one mark each. Explain (4 marks) and Analyse (6 marks) are points-marked: one mark for naming a point and one for every link you add to it, so write **two** developed points for 4 marks and **two or three chains of three links** for 6 (some mark schemes credit only three separate points, so depth beats a long list). Discuss (8 marks) is levels-marked: Level 3 (6–8) needs **point → developed chain → the other side (new points, not the first ones turned round) → a justified judgement**, with about two developed points a side.

1. Identify or explain the roles of a central bank (13 questions)

1. **Picture its customers:** the government and the commercial banks, never the public.
2. **Match the option or point to one of the four things it protects:** the value of the money, the safety of the banks, the state's finances, the currency abroad.
3. **Cross out the commercial bank's work** (savings accounts, mortgages, loans to firms, credit cards) and the government's work (tax rates, the budget).

Variations you will meet:

- **Multiple choice, "which is (not) a role":** the right answers are putting notes into circulation, aiming for steady prices, overseeing the banking system, and lending to a sound bank caught in a liquidity crisis. A question about producers points to price stability, because predictable prices and borrowing costs are what a firm gains.
- **Define a central bank [2]:** one mark for who owns it (the state), one for what it does (look after the currency and interest rates, and hold the accounts of the government and the other banks).
- **Explain two functions, or two functions for the government [4]:** pick two jobs and show each one working. For the government, the clearest pair is "holds its account, so public pay goes out and taxes come in through it" and "handles its borrowing, so it keeps track of the national debt". In general, "sets the interest rate, so it can slow spending when prices rise too fast" or "lender of last resort, so a healthy bank short of cash does not collapse" work well.
- **Analyse why central banks matter [6]:** build a chain for each of two or three groups from the table in "Understand it", each ending in a result for the economy. Example: it raises the interest rate when inflation is high → borrowing costs more and saving pays more → households spend less → prices rise more slowly, so wages keep their buying power.

2. Identify or explain the functions of money (11 questions)

1. **Ask what the money is doing in the situation:** being handed over, being used to compare, sitting and waiting, or measuring a debt.
2. **Name the function exactly:** medium of exchange, unit of account (measure of value), store of value (wealth), standard of deferred payment.

Variations you will meet:

- **Multiple choice:** "valuing goods", "recording transactions" or "comparing what things are worth" means unit of account, which is asked most. Saving for retirement, or savers hurt by inflation, means store of value. When prices rise fast, cash is the worst store of value, since gold, property and shares can rise in price along with everything else. An option that is a quality, such as portability, is never a function.
- **Explain two functions [4]:** for each, the name (1) and what it allows people to do (1). Use your own example from the table above.

3. Identify or explain the characteristics of money (8 questions)

1. **Name the quality** precisely (acceptable, recognisable, limited in supply, portable, divisible, durable, uniform).
2. **Say why money needs it**, using the three questions from "Understand it": will people take it, can it be used in everyday trade, is each unit worth the same.

Variations you will meet:

- **Multiple choice:** banknotes work because people accept them, not because of gold backing or the value of the paper. Coins have the edge over notes in durability. In a "characteristic and function" row, check that each half belongs to the right list.

- **Explain two characteristics [4]:** name (1), then the reason money needs it (1). Example: limited in supply (1), so new units can't be made at will and each one keeps its buying power (1).
- **Characteristics of coins that let them act as money [4]:** name a quality of coins, then use a function as the development (metal coins last for years (1), so they can be saved and still spent later, a store of value (1)). A function on its own earns nothing here.

4. Tell a central bank apart from a commercial bank (5 questions)

1. **Run down the comparison table** in "Understand it": owner, aim, customers, lending, currency.
2. **Write each difference as a pair:** the central bank does X, *whereas* commercial banks do Y.

Variations you will meet:

- **Multiple choice with a yes/no table:** the commercial bank is the one owned by shareholders that is not the government's bank.
- **"Correctly linked" activity and bank:** controlling inflation goes with the central bank; setting tax rates belongs to neither bank; looking after the government's accounts and the foreign reserves is never a commercial bank's job.
- **Identify two differences [2]:** each mark needs a contrast with two halves, for example "the central bank is owned by the state, whereas commercial banks are owned by shareholders". "The central bank sets interest rates but commercial banks don't" is only one point.

5. Explain the services commercial banks give households, firms and government (5 questions)

1. **Note which group the question names.**
2. **Use keep / move / lend** for that group's row of the table, and attach a real product (savings account, card, transfer, mortgage, overdraft, bond).
3. **Finish each point with what it lets that group do.**

Variations you will meet:

- **Multiple choice:** a commercial bank's function is taking deposits from the public. Controlling the money supply, issuing notes and lending as a last resort are the central bank's.
- **Roles for firms [4]:** two of keep, move, lend, each followed to what the firm can now do (a loan buys a second oven, so output rises).
- **Services to households [6]:** two or three chains, one per service, going deep. For instance: savings account → money set aside for a deposit on a flat earns interest → the family reaches its target sooner. Or: a mortgage → the family buys the flat now → repays it from salaries over 25 years instead of saving for decades first.
- **Importance to governments [4]:** the government's own row (tax in, public pay out through bank accounts; banks buy its bonds), or the two economy-wide links: loans create new money that is spent and taxed, and banks pass the central bank's rate changes on to the public.

6. Identify forms of money and ways of paying (4 questions)

1. **Money is coins, banknotes and bank deposits.**
2. **Cards, cheques and phone apps only move deposits**, so they are never a form of money.

Variations you will meet:

- **Identify two forms [2]**: two of coins, notes, bank deposits.
- **Why use of paper money falls**: more ways to pay by card, phone and online.
- **Which method tells the seller nothing about the buyer**: cash.

7. Explain how more banks or bank competition affects customers (3 questions)

1. **Start from the bank's fear of losing customers** to a rival.
2. **Pick two of price, access and usefulness** and follow each to how the customer ends up better off.

Variations you will meet:

- **Benefits to consumers of more banks [4]**: competition (1) pushes up savings rates and down loan rates (1); more banks (1) means a branch or service nearer home, so less time travelling (1).
- **Ways a bank can attract customers [4]**: the same three levers, written as the bank's actions (raise savings rates, open an app or branches, advertise new services), each with why customers would come.
- **Influences other than price on choosing a bank [2]**: two of location, online banking, reputation and safety, range of services, advice. Interest rates are price, so they don't count here.

8. Analyse or discuss the effects of more bank lending on the economy (2 questions)

Ask **who borrows and what they do with the money**, then what happens after.

- **Analyse how more lending benefits an economy [6]**: two or three chains, each ending on the whole economy. A farmer borrows for irrigation pipes → grows a second crop each year → national output rises. A family borrows for a fridge → shop staff and the fridge maker are busier → more jobs, and their wages are spent in turn.
- **Discuss whether more lending raises economic growth [8]**: define the key term; give two chains for (investment adds capacity; spending raises demand and output); two different chains against (money spent on imports or property, prices rising when capacity is tight, debts that go bad); then judge what the answer depends on: what the loans pay for, how much spare capacity there is, and whether borrowers can repay.

Worked examples

Example 1

A remote farming community trades by barter. Explain two problems that the community would have without money. [4]

People would need a double coincidence of wants (1): a farmer with maize who wants a plough has to find a plough-maker who wants maize at the same time, so many trades take a long time or never happen (1).

There would be no common unit of account (1). Every good would need a price in terms of every other good, so it would be hard to compare values and keep records; with 30 goods there would be $\frac{30 \times 29}{2} = 435$ exchange rates to remember (1).

Each problem is named with the syllabus idea, then explained for this community.

Example 2

In some societies, cattle were once used as money. Explain two reasons why cattle make poor money. [4]

Cattle are not divisible (1): a cow can't be split into smaller parts without destroying its value, so it can't be used to pay the exact price of a cheap item such as a bag of salt (1).

Cattle are not uniform (1): one cow can be older, thinner or sicker than another, so two "cows" are not worth the same and every trade needs arguing over (1).

Other correct answers: not portable (they have to be walked to market) or not durable (they can fall ill and die, so they are a risky store of value).

Example 3

A clothing manufacturer is deciding whether to borrow to build a larger factory. Analyse how the central bank could influence this decision. [6]

The central bank sets the main interest rate, and commercial banks base their loan rates on it (1). If the central bank lowers its rate, the manufacturer's bank will usually charge less interest on a loan for the factory (1), so the yearly cost of borrowing falls and the extra output is more likely to make a profit, which makes the firm more willing to build (1).

The central bank also aims to keep inflation low and steady (1). If the manufacturer can expect costs such as wages and cloth to rise only slowly (1), it can judge with more confidence whether the factory will pay for itself over the years ahead, so going ahead is less risky (1).

Two roles, each followed through three links, reach 6. A list of roles without the "so" links would stay at about half marks. A third chain could use the exchange rate, if the firm buys its cloth abroad.

Example 4

Discuss whether or not consumers benefit when a country moves towards a cashless economy, where most payments are made by card or phone. [8]

A cashless economy is one in which money is mostly held as bank deposits and spent electronically, rather than as coins and notes.

For. Card and phone payments are quick, and consumers don't need to carry cash or visit a cash machine. They can pay for products online from sellers far away, which widens choice and lets them compare prices, so they may pay less (developed point for).

Money held in a bank account is safer than cash at home: it can't be stolen in a burglary, and a lost card can be stopped. Every payment is recorded, so consumers can check their spending and budget more easily, and money in some accounts earns interest (second developed point for).

Against. Not everyone has a bank account, a smartphone or a reliable internet connection. Older people, poorer households and people in rural areas may find it harder to buy what they need, so they may pay more or be left out (developed point against).

Every electronic payment tells the bank and the seller who paid and for what, so consumers lose privacy, which cash gives them. Card fees may be passed on in higher prices, and when a payment system fails or an account is hacked, consumers can be left unable to buy anything at all (second developed point against).

Judgement. Most consumers gain in convenience, safety and choice, so on balance the move is beneficial, but only if access is universal. The answer depends on how many people have bank accounts and phones and how reliable the payment networks are. Keeping cash available alongside electronic payments during the change would protect the groups most at risk (justified judgement). Both sides are developed and the judgement says what it depends on, so this meets the Level 3 descriptor (6–8 marks).

Common mistakes

- **Mixing up the two kinds of bank.** Examiners report this almost every year: answers about commercial banks that talk about printing money and running monetary policy, or answers about the central bank that talk about loans to households. Before writing, say to yourself who the bank's customers are.
- **Giving characteristics when functions are asked for,** or the other way round. "Portable" and "durable" are characteristics; "medium of exchange" and "store of value" are functions.
- **Loose names for functions.** Write "medium of exchange", "unit of account" or "measure of value", "store of value", "standard of deferred payment". A description such as "it pays for things" may not earn the identifying mark.
- **Calling cheques or cards money.** They move money between accounts; the forms of money are coins, notes and bank deposits.
- **Saying the central bank uses fiscal policy.** Changing taxes and government spending is the government's job. The central bank's tools are interest rates, the money supply and the exchange rate.

- **Ignoring the source.** In Section A, if the text mentions a particular bank, service or group (say, a bank opening branches in farming towns, or a country where few people have accounts), build your answer on it rather than on a learned list.
- **Only identifying, not explaining.** In Explain questions many answers name two roles but don't say why they matter, which halves the marks.
- **A one-sided Discuss.** In the bank lending question, most answers developed the benefits well but gave little on why growth might not follow. Plan the "against" side before you start writing.

How to get the marks

- **Identify** (2 marks): two short, separate answers. If asked for differences, each must be a matched pair.
- **Define:** one exact sentence with the key features, for example "a central bank is the state-owned bank at the top of the money system, which looks after the currency and interest rates and keeps the accounts of the government and the other banks".
- **Explain** (4 marks): point + development, twice. The development says what the point allows or why it matters, for the group in the question.
- **Analyse** (6 marks): two or three chains, each at least three links. Name a specific product or action (a mortgage, an overdraft, raising the interest rate) and follow it to an effect on the household, firm or economy.
- **Discuss** (8 marks): both sides, at least two developed points each, then a judgement that says what the answer **depends on**. Reversing a point ("it may increase growth ... it may not") scores once.
- **Use the terms:** medium of exchange, unit of account, store of value, standard of deferred payment, generally acceptable, durable, portable, divisible, uniform, deposit, overdraft, mortgage, interest, lender of last resort, monetary policy, money supply, liquidity.
- **Multiple choice:** 1 mark each, no penalty for guessing, so answer every one.

Quick check

1. A clothes shop labels a jacket \$45 and a shirt \$15, so a customer can see the jacket is worth three shirts. Which function of money is shown?
 - **A** medium of exchange
 - **B** standard of deferred payment
 - **C** store of value
 - **D** unit of account
2. Banks in a country are lending so freely that spending, and prices, are rising fast. Which organisation is most likely to act, and how?
 - **A** the central bank, by cutting its interest rate
 - **B** the central bank, by raising its interest rate
 - **C** the commercial banks, by printing more banknotes
 - **D** the central bank, by raising income tax

3. Tomasz puts \$2000 into a savings account paying 3% interest a year. Over the same year, prices rise by 6%. Calculate (a) the interest he earns, (b) how much is in the account after one year, and (c) how much more he would need, at the end of the year, to buy goods that cost \$2000 at the start. (d) Which function of money is weakened?
4. Explain two ways a commercial bank can help a farmer who wants to buy a new tractor. **[4]**
5. State the function of money shown in each case. (a) A fruit seller is paid in cash and uses it to buy fertiliser. (b) A family agrees to repay a \$9000 car loan in equal amounts over three years.

Answers

1. **D.** Money is being used to measure and compare the value of two goods. (1)
2. **B.** Controlling inflation is the central bank's job, and a higher rate makes borrowing dearer, so lending and spending slow. A would speed spending up; commercial banks don't issue notes (C); income tax is fiscal policy, set by the government (D). (1)
3. (a) $2000 \times 0.03 = 60$, so \$60. (b) $2000 + 60 = 2060$, so \$2060. (c) The goods now cost $2000 \times 1.06 = 2120$, so he is $2120 - 2060 = 60$ short: \$60. (d) Money as a **store of value**: his savings buy less than before, because inflation (6%) is higher than the interest rate (3%).
4. The bank can lend the farmer the money through a loan (1), so the farmer can buy the tractor now and repay it out of future harvests, paying interest (1). It can offer financial advice (1), for example on whether to borrow or lease and how large a repayment the farm's income can support (1). (Also: arranging insurance for the tractor, or handling the payment to the tractor dealer.)
5. (a) **Medium of exchange**: money is accepted for the fruit and then spent. (b) **Standard of deferred payment**: a debt is agreed in money and paid later. At \$9000 over 36 months, each payment is $9000 \div 36 = 250$, so \$250 a month.

Past questions to try

- 0455/13/M/J/23 Q12: when the central bank acts as lender of last resort.
- 0455/22/M/J/24 Q4: part (b), explaining two characteristics of money.
- 0455/23/O/N/23 Q3: part (b), explaining two functions of a central bank.
- 0455/23/O/N/22 Q5: part (d), discussing whether more commercial bank lending increases economic growth.