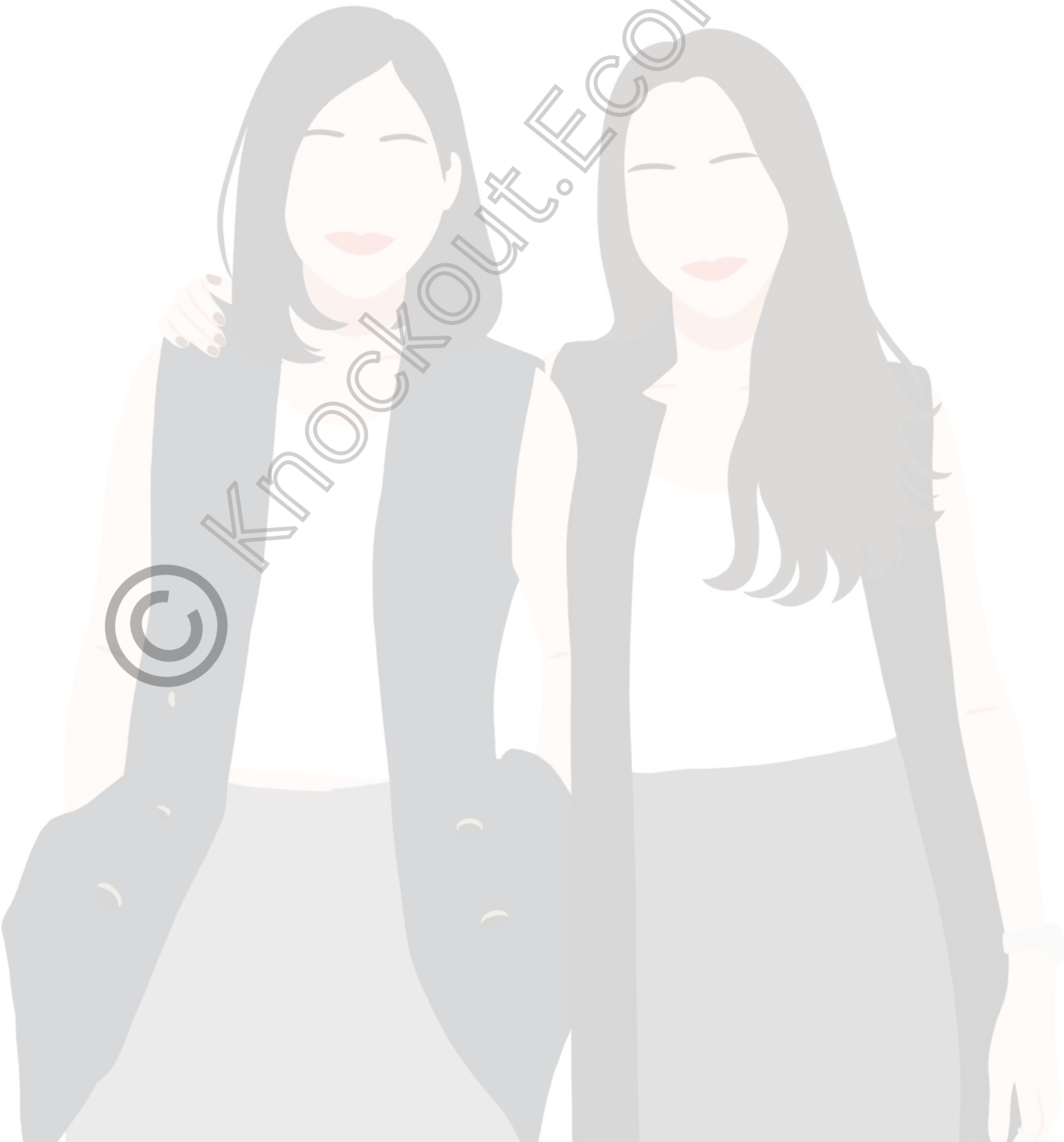
CHAPTER 16 : MONEY AND BANKING

Key terms

1. Money : an item which is generally acceptable as a measure of payment.
2. Commercial bank : banks which aim to make a profit by providing a range of banking services to households and firms.
3. Liquidity : being able to turn an asset into cash quickly without a loss.
4. Central bank : a government-owned bank which provides banking services to the government and commercial banks and operates monetary policy.



1. Money

→ Money is anything which can be made a purchase.

4 Functions of money

1. **Medium of exchange** : it is generally acceptable to exchange for goods and services
2. **Store of Value** : money can be saved for consumption in the future.

Limitation : value of money may fall as inflation rises

3. **Unit of account** : money can be used to place value on an item e g. price of a pen=2$.
4. **A standard of defer payments** : money allows people to borrow and lend.

The characteristics of money

1. Money does not need to have intrinsic value like gold or silver.
2. Acceptability : people accept the item as payment.
3. Durability : it will last some time.
4. Portability : it is easy to carry.
5. Divisibility : it can be divided into units of different values.
6. Homogeneous : every note or coin of the same value should be the same.
7. Recognisability : it can easily see that item as money.

2. Banking

Central bank	Commercial bank
It is the government's bank or national bank.	Banks are owned by the private sector.
It aims to stabilize an economy by monetary policies including controlling inflation.	It aim to make profit for its shareholders.