



Money and Banking

Section 1

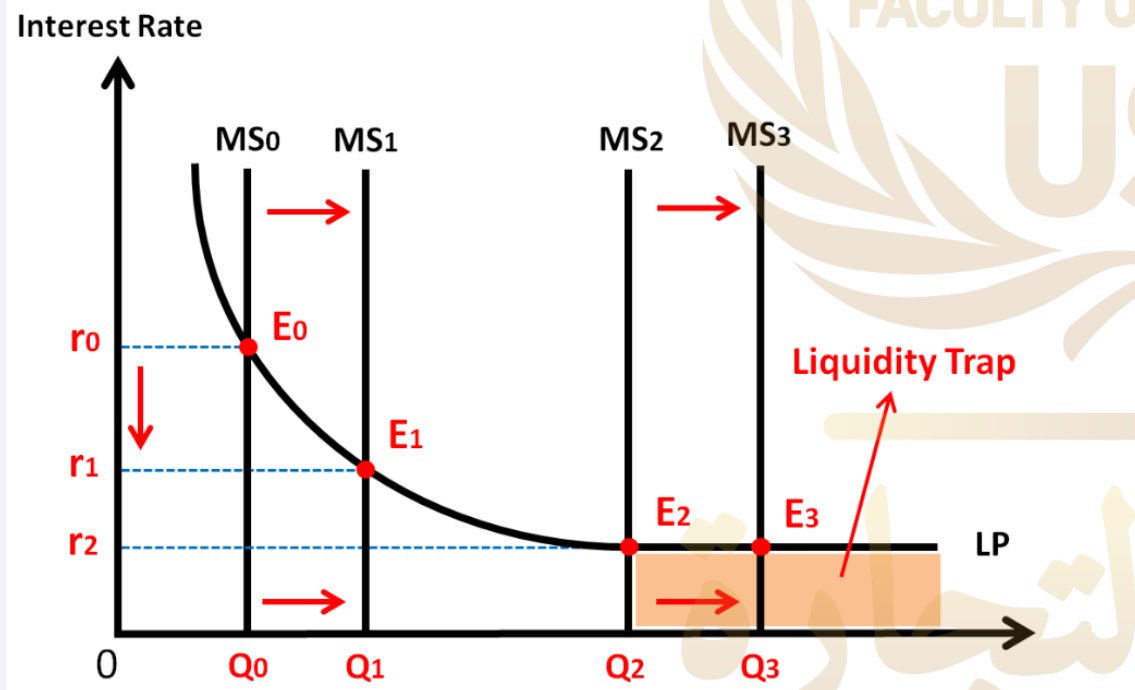
*Prepared by
Mohamed monged*

During the term we will discuss the following chapters:

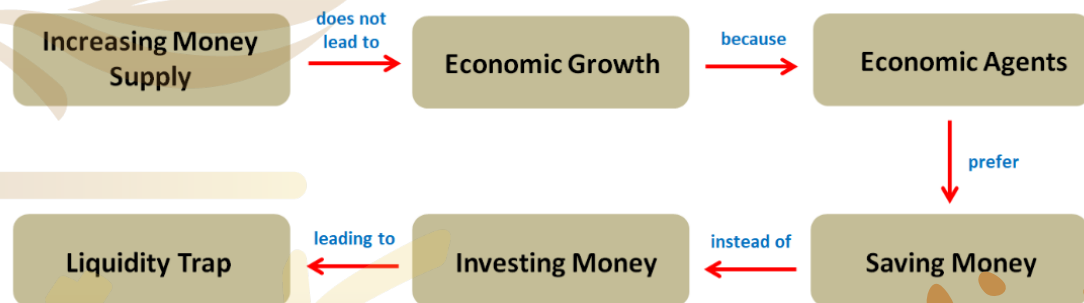
Chapter 1, MONEY: MEANING, FUNCTIONS AND CLASSIFICATION

- ✓ BARTER SYSTEM.
- ✓ DIFFICULTIES OF BARTER SYSTEM
- ✓ MONEY
- ✓ THE MAIN FUNCTIONS OF MONEY
- ✓ PHASES IN THE EVOLUTION OF MONEY
- ✓ PRINCIPLES AND METHODS OF NOTE ISSUE
- ✓ SIGNIFICANCE OF MONEY IN CAPITALIST ECONOMY
- ✓ DEFECTS OF MONEY

Liquidity trap



Liquidity Trap



M1, M2, M3, M4

Liquidity of M1, M2, M3 and M4

M1

- Most Liquid

M2

- Less Liquid

M3

- Less Liquid
- Also called Aggregate monetary resources of the society
- Most widely used

M4

- Least Liquid

Narrow Money Supply Concepts

Broad Money Supply Concepts

Barter System

It involved exchange of goods for goods. For example, exchange of rice for shoes by some individuals. **This exchange of goods for goods was known as barter.**

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1- Lack of double coincidence of wants.

2- Difficulty in the measurement of value.

3-Difficulty in store of value.

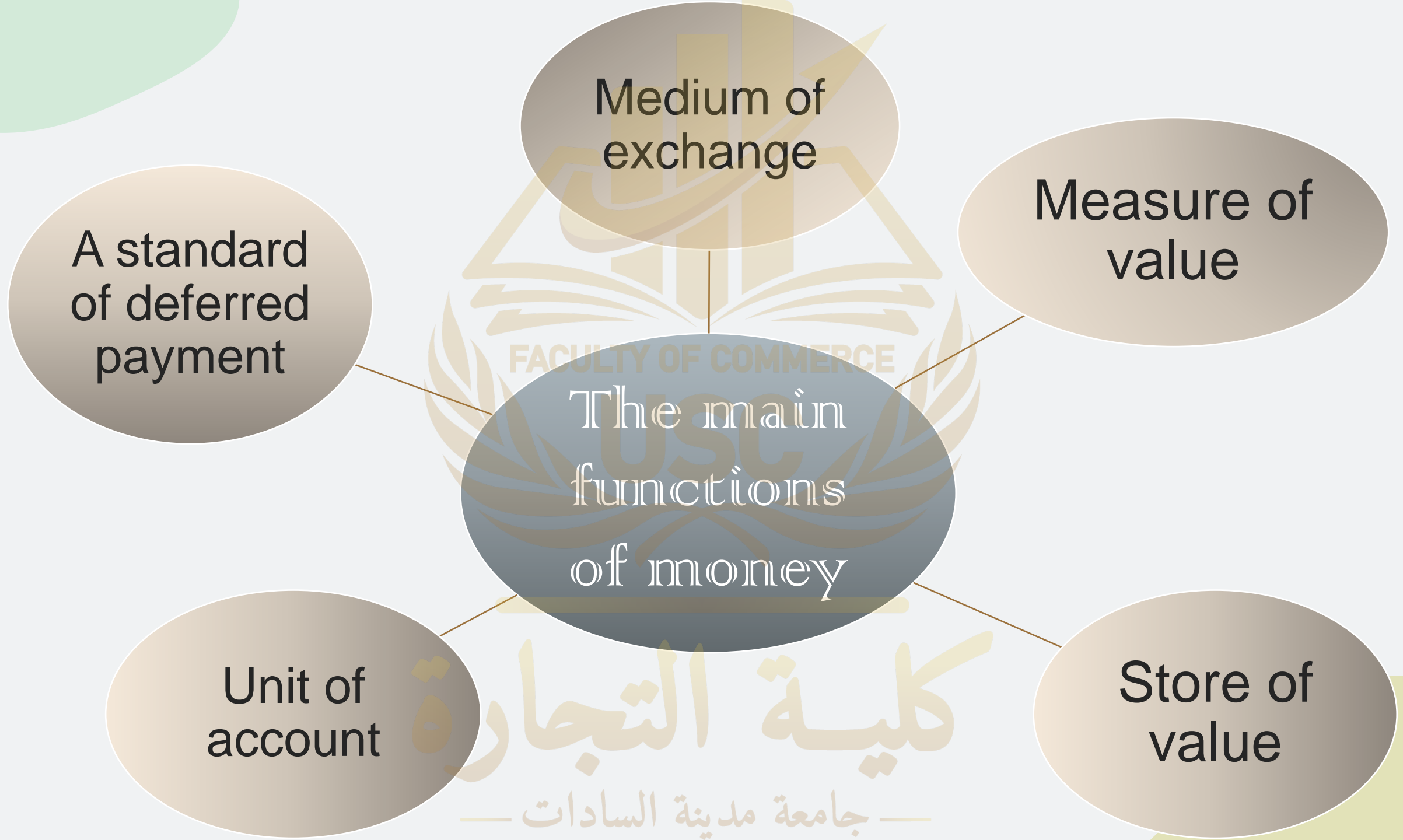
4- Difficulty of Division of the Goods

5- The exchange of services would be far more complicated than the trading of goods.

Money

- Money may be anything chosen by common approval as a medium of exchange.
- The chosen thing or commodity should be commonly accepted in payment for goods and services and to clear debts.

- Money was once recognized with coins.
- coin: metal stamped in pieces of portable form as a medium of exchange and measure of value
- Currency, in turn is defined as anything that circulates from person to person in the process of exchange



primary functions of money

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graph TD; A[primary functions of money] --> B[Medium of Exchange]; A --> C[Measure of Value];
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Medium of Exchange

Measure of Value

secondary function of money

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graph TD; A[secondary function of money] --> B[A standard of deferred payment]; A --> C[Store of value]; A --> D[Unit of account];
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A standard of
deferred payment

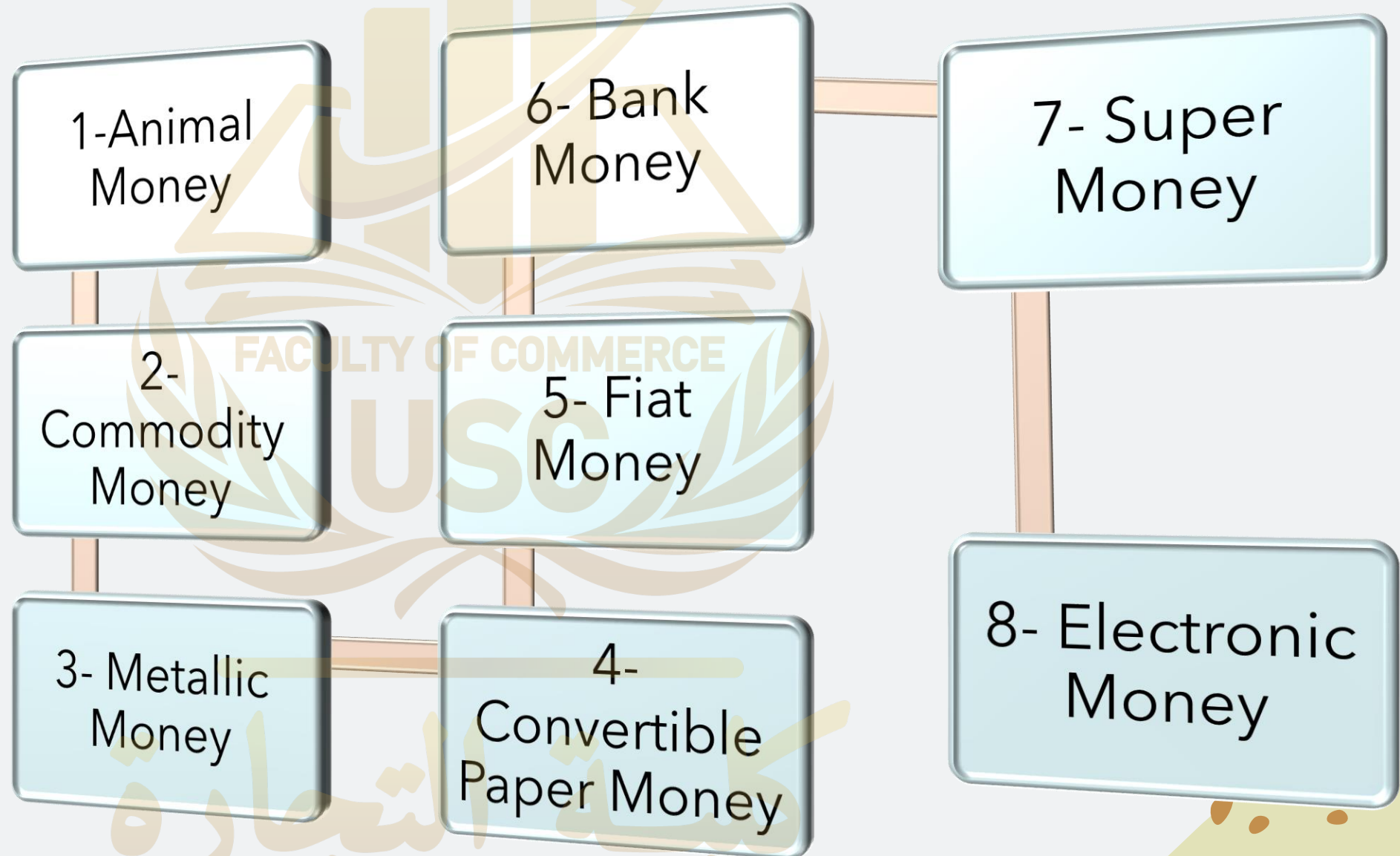
Store of value

Unit of
account

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phases in
the
evolution
of money



Methods of Note Issue

1-
Fixed
Fiduciar
y
System

2-
Proportional
Reserve
System

3-
Minimu
m
Reserve
System

DEFECTS OF MONEY

**John Stiward
Mill's
Limitations of
money**

A- The demand for money becomes an indirect demand.

B- It cannot serve as a store of value during the times of hyperinflation.

C- Money is believed to be responsible for inequalities in the society.

D- Money is also held responsible for corruption in the society.



Q1: Which of the following is not a function of money?

- A** Act as an intermediate in the exchange process.
- B** Acts as a store of value.
- C** Used as the unit of account.
- D** Used for regulating consumption.

Answer: D

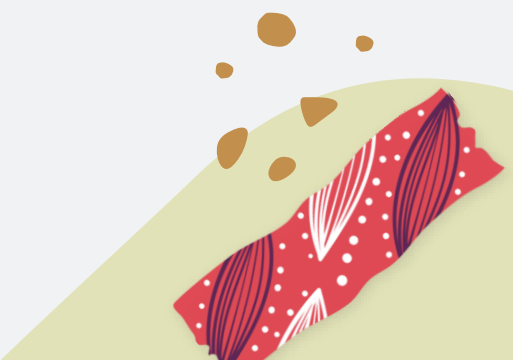




Q2: What is the defect of the barter system?

- A** Lack of double coincidence of wants
- B** Difficulty in the measurement of value
- C** Difficulty in store of value
- D** All of these

Answer: D





Q3: To encourage investment in the economy, the Central Bank may

- A** Reduce Cash Reserve Ratio
- B** Increase Cash Reserve Ratio
- C** Sell Government securities in the open market
- D** Increase Bank Rate

Answer: A





Q4: Which of the following is the narrow measure of the money supply?

A M2

B M3

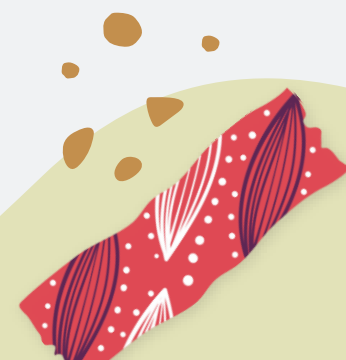
C M1

D M4



Answer: C

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Q5: Which one is the difficulty of the Barter System?

- A** Lack of Double Coincidence
- B** Difficulty of Division of the Goods
- C** Lack of General Acceptable Measure of Value
- D** All the above

Answer: D





Q6: Which is the correct order of money evolution?

- A** Commodity Money, Paper Money, Metal Money
- B** Commodity Money, Metal Money, Paper Money, Credit Money
- C** Credit Money, Metal Money, Paper Money
- D** None of the above

Answer: B





Q7: Which one is included in the secondary function of money?

A To make Deferred Payments

B Store of Value

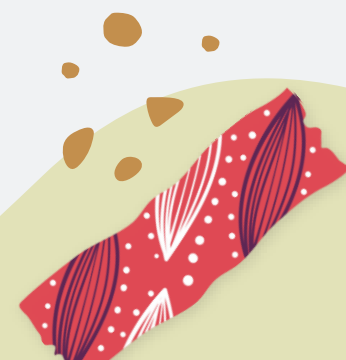
C Unit of Account

D All of these

Answer: D



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Q8: Which one is included in the primary function of money?

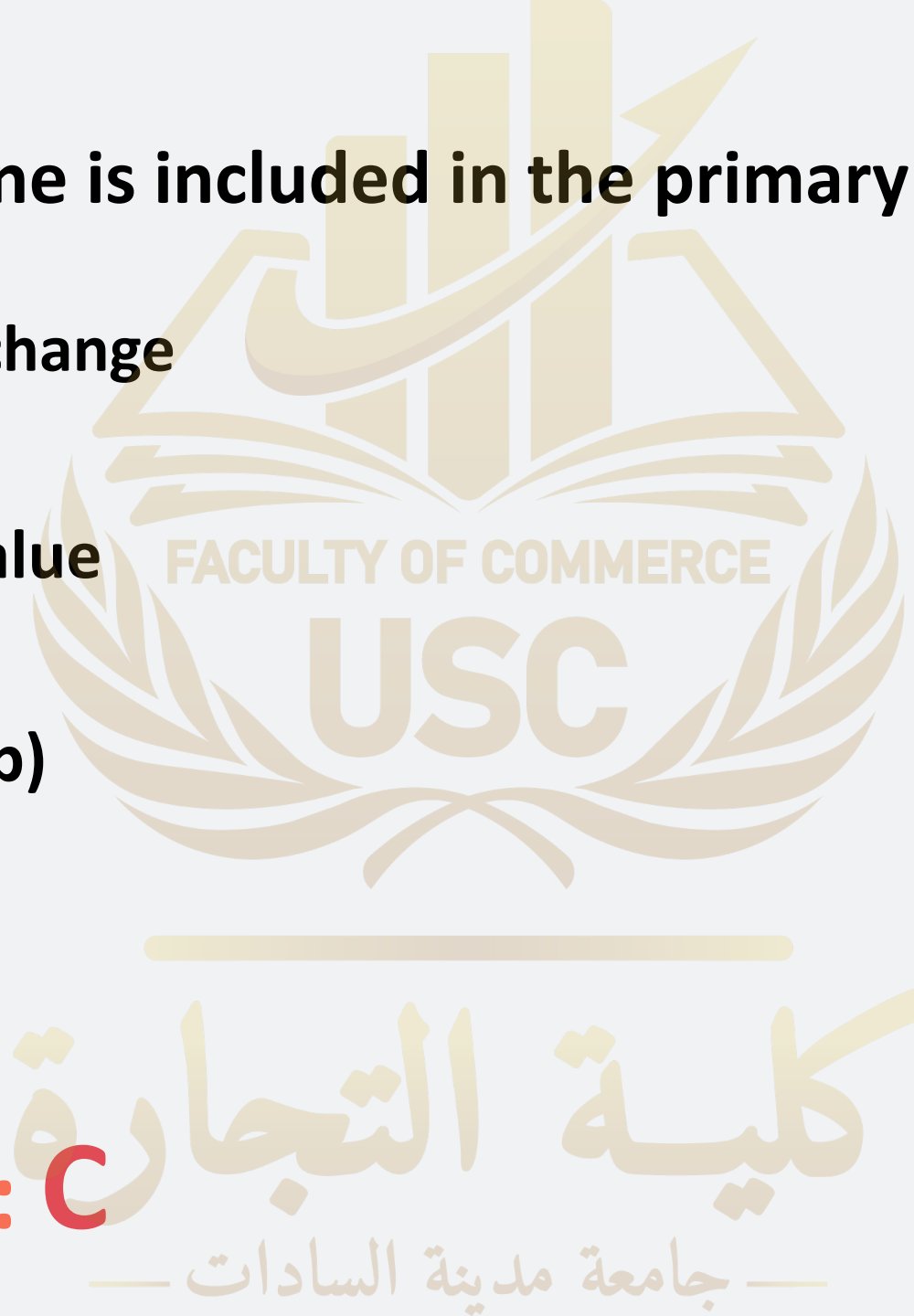
A Medium of Exchange

B Measure of Value

C Both (a) and (b)

D Store of Value

Answer: C





Q9: The function of money is

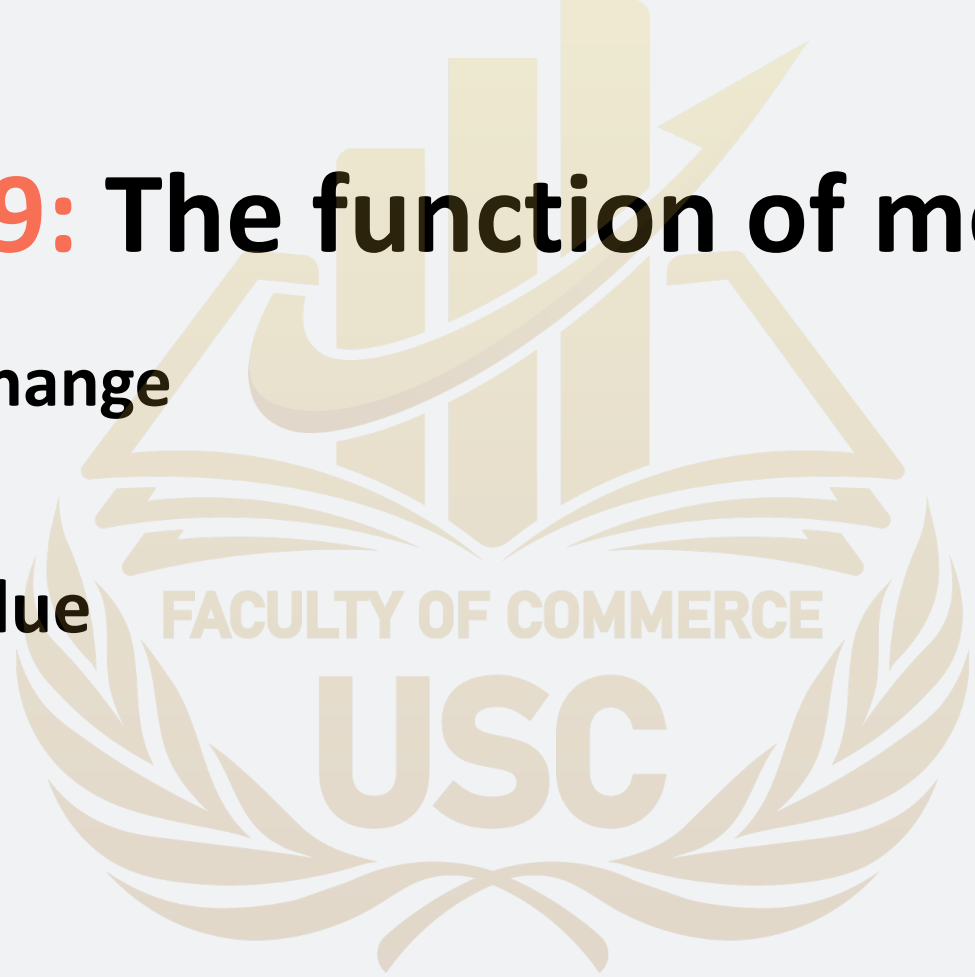
A Medium of Exchange

B Measure of Value

C Store of Value

D All the above

Answer: D



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Q10: Which of the following is not a function of money?

A Medium of Exchange

B Price stability

C Store of Value

D Unit of account

Answer: B



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Q11: They used basic Commodities as generally accepted medium of exchange.

- A** Animal money
- B** Commodity money
- C** Metallic money
- D** Fiat money

Answer: B



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Q12: The money developed in the form of credit money is referred to as

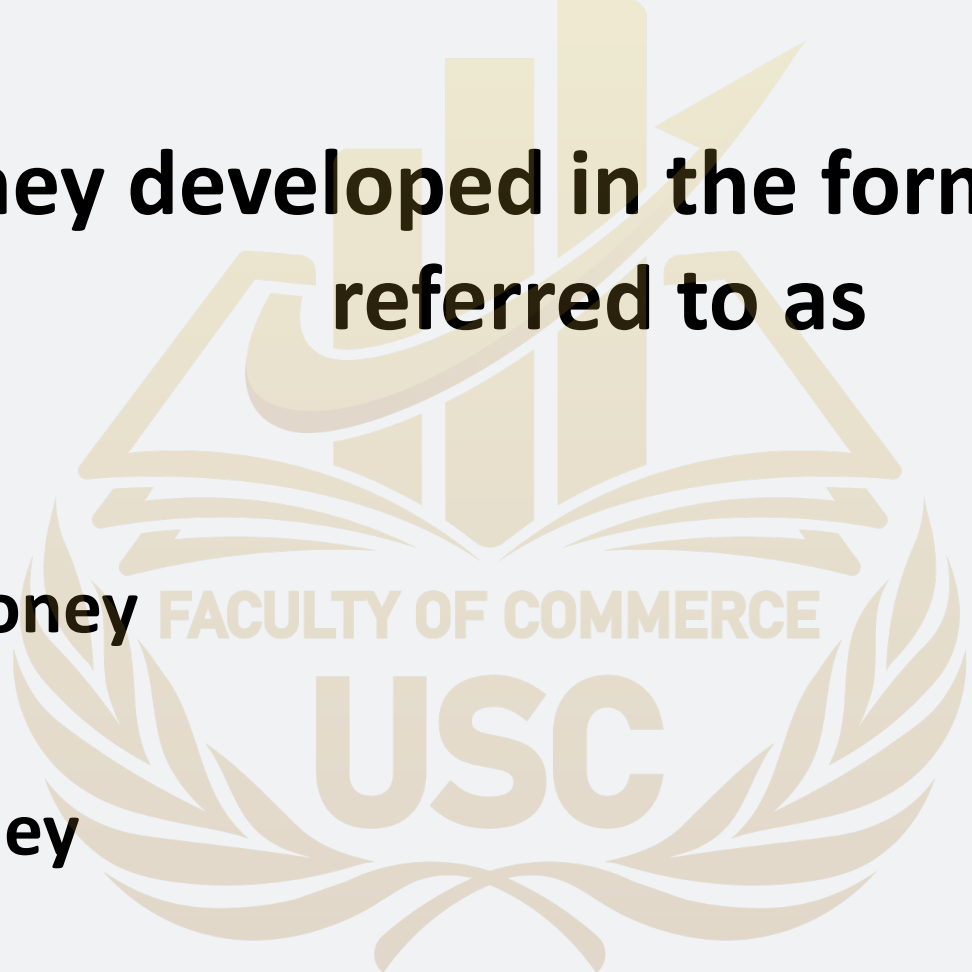
A Bank money

B Commodity money

C Electronic money

D Fiat money

Answer: A



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Q13: is defined as the digital payment message, which serves as a medium of exchange and store of value.

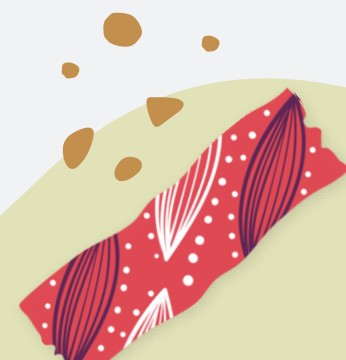
A Bank money

B Commodity money

C Electronic money

D Fiat money

Answer: C





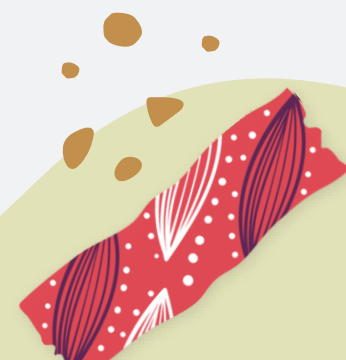
Q14: refers to coins prepared out of various metals like Gold, Silver, Bronze, Nickel etc.

- A** Animal money
- B** Commodity money
- C** Metallic money
- D** Fiat money

Answer: C



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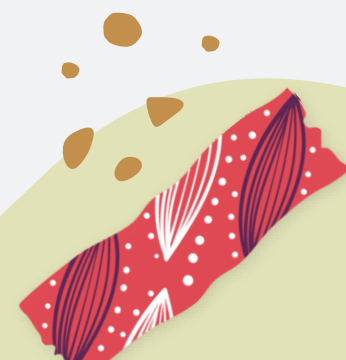
Q15: is anything that is acceptable in payment for goods and services.

- A** Coins
- B** Metal
- C** Money
- D** Payment

Answer: C



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Q16 This exchange of goods for goods was known as

- A** Money
- **B** Barter
- C** Payments
- D** Commodity

Answer: B



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FOR YOUR
ATTENTION***



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