



Money and Banking

MEGA LECTURE

IGCSE

What is Money?

- Is any product that is used to facilitate the process of exchange.
- But nowadays all countries use cash / paper notes as currency which is known as money.

Barter System

- Exchange of *goods and services* for other goods and services.

MEGA LECTURE

What were the problems with the barter system?

1. The goods are not divisible
2. The goods are not easily transferable or portable.
3. The goods are not durable.
4. There was a problem of **double coincidence** of wants.

Functions of Money

- 1. Medium of Exchange** – refers to the idea that money is used to buy goods and services that are needed for consumption.
- 2. Store of Value** – some people prefer to save in the form of cash / money.
- 3. Unit of Account / Measure of Value** – refers to the idea that all goods and services are valued in the local currency.
- 4. Means of Deferred Payments** – in the modern economies all borrowing and lending is in the form of money.

Characteristics of Money

1. **It should be lightweight and portable** – money should be lightweight and easily carried around or else it would cause inconvenience.
2. **It should be divisible** – the money should be available in larger and smaller denominations.
3. **It should be durable** – money should not be made out of very easily damageable material so that it can last longer.

Characteristics of Money

4. *It should be scarce* – money should always be available in limited quantities so that it does not become value less.
5. *It should be legal tender / generally acceptable* – money should be printed / issued by the government so that people have trust in it and accept that as a means of payment.

Banking System

Banks take money from the depositors and give it to borrowers.

They charge interest from the borrowers, give some chunk of that and give some to their depositors as an incentive to save their money through a bank.

Interest Rate

- Bank charges interest to borrowers some of which is given to depositors as a reward for saving their money through a bank account.
- The difference between the interest charged to borrowers (which is higher) and the interest paid to depositors (which is lower) is the bank's profit.

Types of Bank Accounts

Current Account	Savings Account
Does not pay interest	Pays interest
No restriction on withdrawal of money	Some restrictions on withdrawal of money



Commercial Banks

Commercial banks are privately owned banks and so are profit making entities.

Most of the banks that you see around are Commercial banks like Standard Chartered,

Habib Bank, Allied Bank *etc*

etc

Government owned Banks

These banks are owned and run by government and they are established to serve a particular purpose. For instance, Zairi Takagiati Bank specializes in providing loans to farmers for agriculture purposes. Bank of Punjab executes Punjab government projects / initiatives.

Central Bank

is the supreme authority within a banking system.

Every country has one central bank that acts as the regulatory body for all the other banks. State Bank of Pakistan is Pakistan's Central Bank.

Islamic Bank

as the name suggests these banks offer usual banking services but they follow Islamic financial principles. Dubai Islamic Bank is an examples and some other conventional banks like Commercial Banks have opened their Islamic windows to attract more customers.

Role of Central Bank

To print economy's currency:
central bank is the sole
authority for printing
economy's currency, in our
case Pakistani rupees

Role of Central Bank

To make regulations for other banks: there are many different type of regulations that are made by central banks for other banks that they have to comply with like whom should a bank lend money, required documentation etc.

Role of Central Bank

To make regulations for other banks: there are many different type of regulations that are made by central banks for commercial banks that they have to comply with; like whom should a bank lend money, required documentation etc

Role of Central Bank

Holds foreign currency reserves and uses these as and when deemed appropriate: these foreign currency reserves are used to pay off country's international debt and sometimes used to influence country's exchange rate value

Role of Central Bank

Responsible for making country's monetary policy: monetary policy, as we will study later in the syllabus, is about determining the country's money supply and interest rates which is then used for lending and borrowing purposes.