



### ***Functions of Money***

#### ***What purpose money serves in an economy?***

1. ***Medium of Exchange*** - used to buy goods and services. Everyone is willing to accept money as a payment method as long as the price is agreed upon.
2. ***Store of Value***: money retains its purchasing power over time unless there is very high rate of inflation. Just like any other real or financial asset, money retains its value over time.
3. ***Unit of Account***: everything product in the modern economy is valued in monetary terms. In terms of local currency.
4. ***Means of Deferred Payments***: all borrowing and lending is in the form of money. Which is more equitable for the lender as his / her purchasing power does not diminish by lending money to someone.

### ***Characteristics of Money***

#### ***Qualities / features of the product that would be ideal to be used as money***

- a) ***Durable***: money is durable and after some time the central bank replaces the older currency notes with the new ones.
- b) ***Divisible***: the currency should have larger and smaller denomination notes to buy more and less valuable products more conveniently respectively.
- c) ***Portable***: money should be lightweight to be easily carried from one place to another.
- d) ***Scarce / Limited Supply***: if money is in abundance then it will lose its value and therefore the central banks ensure a steady supply of money in an economy. Excessive printing of money can result in hyperinflation.
- e) ***Legal Tender***: is that every currency is backed by that country's central bank which gives the otherwise valueless piece of paper the value through which it can buy goods and services.

Past Paper Question

**Use a production possibility curve diagram(s) to distinguish between the growth of an economy and a reduction in the number of unused resources in an economy and explain one reason that might cause each to occur.**

Definition: PPC is a graph that shows the maximum output that a country can produce in terms of 2 goods. Any point outside the boundary is not attainable but any point within the curve or on the curve is achievable.

Level 1 - Knowledge

Level 2 - Application

Level 3 - Analysis

Level 4 - Evaluation

**Reason for reduction in the number of unused resources:** when there is increase in demand, the product prices and producers earn higher margins and therefore they would want to produce more requiring them to employ more resources.

**Factors causing growth:** improvement in factor endowment (quality and quantity of resources) will cause an outwards shift in the PPC showing that a country has enhanced production potential. Like labor productivity

**Explain how a production possibility curve with increasing opportunity costs illustrates the consequences of a government's choice to produce more military goods. Use a diagram to support your answer.**

Define the PPC

The PPC which is a curve has increasing opportunity cost.