19.1 Barter

1. In a barter economy, transactions of goods are very costly because there is:

(a) difficulty in meeting double coincidence of wants

(b) difficulty in reaching an agreement on the exchange ratio

(c) lack of a common measure of value

(d) difficulty in storing wealth

(e) difficulty in carrying around

19.2 Money

2. Define money.

Money is anything that is generally acceptable as a medium of exchange.

3. There are four functions of money:

(a) Medium of exchange: Money serves as a medium to facilitate people's buying and selling of goods and services. It acts as a generally accepted means of payment.

(b) Unit of account: Money is used to quote the prices and values of goods and services.

(c) Store of value: People can store purchasing power as an asset in the form of money for future spending on goods and services.

(d) Standard of deferred payment: Future payments are expressed in terms of money.

4. In economy A, people exchange gold coins for goods and services. Explain the function of money that is performed by gold coins in economy A in the following situations.

(a) All shops in economy A accept payment in gold coins.

Medium of exchange: Gold coins serve as a medium to facilitate people's buying and selling of goods and services.

(b) Most shops in economy A quote the prices of goods and services in terms of gold coins.

Unit of account: Prices of goods and services are expressed in terms of gold coins.

5. Give **TWO** reasons to explain why compared to corn, gold is a better form of money.

Gold is more generally acceptable as a medium of exchange than corn. / Gold is more portable than corn. / Gold is more homogeneous while corn has varying quality. / Gold is more durable, while corn may perish easily. (OR any reasonable answers) (Any two)

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6. Determine if each of the following statements is true or false.

(a) Compared with demand deposits, savings deposits better serve the function of a store of value.	*(True / False)*
(b) Compared with time deposits, demand deposits better serve the function of a unit of account.	*(True / False)*
(c) The face value of convertible money is usually higher than its intrinsic value.	*(True / False)*
(d) The coins circulating in Hong Kong are fiat money.	*(True / False)*

7. Name the three note-issuing banks in Hong Kong.
The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited, Bank of China (Hong Kong) Limited

8. Under the linked exchange rate system, the three note-issuing banks can buy and sell Hong Kong dollars and US dollars with the Exchange Fund at a *(fixed / floating)* exchange rate.

19.3 Banking

9. Identify if each of the following functions is performed by a central bank or a commercial bank. Tick the appropriate box (✓).

Function	Central bank	Commercial bank
(a) Issuing currency	✓	
(b) Acting as the government's banker and adviser	✓	
(c) Accepting various types of deposits		✓
(d) Supervising and monitoring the monetary sector	✓	
(e) Issuing letters of credit and discounting bills of exchange		✓
(f) Acting as the lender of last resort	✓	
(g) Formulating and carrying out monetary policies	✓	
(h) Managing the official reserves	✓	
(i) Keeping deposit-taking institutions' cash reserves	✓	
(j) Providing loans to households and firms		✓
(k) Administering the clearing house	✓	
(l) Underwriting new shares		✓

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10. Which of the following are functions of the Hong Kong Monetary Authority?

- ☑ issuing currency
- ☐ determining the inter-bank offered rate in Hong Kong
- ☑ supervising and monitoring the monetary sector
- ☑ managing and investing the Exchange Fund
- ☑ maintaining the stability of the linked exchange rate
- ☐ maintaining the stability of the mortgage rate
- ☐ determining the market interest rate of Hong Kong
- ☑ acting as an adviser to the government on financial and banking matters
- ☑ acting as the lender of last resort
- ☐ administering the clearing house
- ☑ carrying out monetary policies

11. Which deposit-taking institution(s) in Hong Kong can accept the following deposits? Fill in the correct letter(s).

A. a deposit of HK$300,000 for six months
B. a deposit of HK$100,000 for three months
C. a deposit of HK$1,000,000 for one month

Licensed banks: A, B, C

Restricted licence banks: C

Deposit-taking companies: A, B

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