**Economics Essays – Chapter 4 – The individual as producer, consumer and borrower**

**Essay Question 1**

Money is said to be of vital importance in all economies. Money, in terms of how we earn it, spend it and save it, is of fundamental importance to everybody. Describe the four functions of money. [4]

**Essay Question 2**

Describe the functions of a central bank. [6]

**Essay Question 3**

Commercial banks and stock exchanges are playing an increasing role in the Chinese economy with, for instance, more of the Chinese labour force being employed in the financial sector. Describe the functions of a commercial bank. [4]

**Essay Question 4**

Trade unions play a role in the New Zealand economy, but not every worker belongs to one. This is especially the case in small firms. Describe the functions of a trade union. [4]

**Essay Question 1**

**Money is said to be of vital importance in all economies. Money, in terms of how we earn it, spend it and save it, is of fundamental importance to everybody.**

**Describe the four functions of money. [4]**

Money is defined as assets that are used widely and accepted as payment. There are four functions of money: medium of exchange, unit of account, store of value and standard for deferred payments.

First, money functions as a medium of exchange. This means that money acts as a device for making transactions, which allows people to trade at a more cost- and time-efficient way. Therefore, money encourages specialization.

Second, money functions as a unit of account. Money is the basic unit for measuring economic value. A single, uniform measure of value is convenient as it simplifies comparison among different goods and services. For example, the price of a commodity and the wage are all expressed in dollars.

Third, money functions as a store of value. Money is a way of holding wealth. For example, individuals keep paper money at home or in the bank to hold personal wealth.

Fourth, money functions as a standard for deferred payment. This means that money facilitates both short-term and long-term transactions. For example, investors take 5-year bank loans for future investment. Therefore, money helps to promote economic growth.

**Essay Question 2**

**Describe the functions of a central bank. [6]**

A central bank is a government-owned bank that provides banking services to both the government and commercial banks. The primary function of a central bank is to manage the nation’s money supply. There are several functions of a central bank.

First, the central bank serves as a banker to the government. It stores tax revenue paid to the government and makes payment for the government.

Second, the central bank serves as a banker to commercial banks. It enables these banks to settle debts or withdraw cash via holding accounts.

Third, central banks serve as the lender of last resort. This means that they can lend to banks or other eligible institutions that are facing financial difficulty or near risk of collapse.

Fourth, the central bank manages the national debt.

Fifth, the central bank holds the country’s foreign reserves, so as to maintain exchange rate stability and facilitate the use of government policies.

Sixth, the central bank issues notes and coins. It is in-charge of the printing and destruction of notes and minting of coins.

**Essay Question 3**

**Commercial banks and stock exchanges are playing an increasing role in the Chinese economy with, for instance, more of the Chinese labour force being employed in the financial sector.**

**Describe the functions of a commercial bank. [4]**

A commercial bank is a private sector bank that aims to maximise profit through the provision of banking services, such as loans. There are three main functions of commercial banks: to accept deposits from customers, to lend and to enable customers to receive and make payment.

First, the commercial bank functions to accept deposits from customers. Deposits can be stored in either the current account or the deposit account. For current account, customers have easy and immediate access to money but interest is not paid on money held. In contrast, for deposit account, customers have to provide a period of notice before money can be withdrawn and interest is paid.

Second, the commercial bank functions to lend money to borrowers. Commercial banks serve as financial intermediaries by channelling money from savers to borrowers. Individuals can borrow either by overdraft or taking loan. It is important to note that commercial banks profit most of their interest from long-term loans.

Third, the commercial bank functions to enable customers to receive and make payment. These banks act as agents for payments and the provision of financial transactions. For example, transaction can be made through cheques, credit cards and online banking.

**Essay Question 4**

**Trade unions play a role in the New Zealand economy, but not every worker belongs to one. This is especially the case in small firms.**

**Describe the functions of a trade union. [4]**

Trade union refers to a group of workers linked together usually by a common occupation with the aim of improving or monitoring the welfare of the group, negotiating working conditions, wages, terms of employment, safety practices. There are several functions of a trade union.

First, a trade union serves to ensure adequate wage increment, so as to help workers manage the cost of living. Workers must have an income level sufficient to cover daily expenses.

Second, a trade union ensures working conditions are desirable and appropriate. For example, health and safety of workers are looked after and there are medical benefits to ensure the workers are healthy.

Third, a trade union ensures job security, which refers to the probability of keeping the job. The workers are protected in terms of staying employed.

Trade union achieves these aims through collective bargaining, which are negotiations between worker representatives and employers associations.