Your notes

GCSE Economics: revision notes

Money and financial markets

Contents

1. Money and its functions
2. Financial institutions
3. Interest, saving and borrowing
4. Share and bond markets
5. Key terms
6. Quick questions
7. What to do next

Money and its functions

- **Money** is anything widely accepted in exchange for goods and services. Its functions: a **medium of exchange**, a **store of value**, a unit of account (measuring value) and a standard of deferred payment (for debts).
- **Barter** (swapping goods) needs a double coincidence of wants, which **money** avoids.

Financial institutions

- Commercial (high street) banks take deposits, make loans and provide payment services.
- Building societies are owned by their members and specialise in mortgages and savings.
- Insurance companies spread risk by collecting premiums from many people.
- The **central bank** (the Bank of England) issues banknotes, sets the Bank Rate and acts as lender of last resort to banks. Guernsey has its own banknotes issued by the States of Guernsey.

Interest, saving and borrowing

- Interest is the reward for saving and the cost of borrowing.
- Simple interest: £1,000 saved at 3% earns £30 a year.
- The Annual Percentage Rate (APR) shows the yearly cost of borrowing, including fees.
- Factors affecting saving and borrowing: interest rates, confidence about the future, income and the availability of credit.

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Share and bond markets

- **Shares** are part-ownership of a company; shareholders may receive **dividends**. Bonds are loans to governments or firms that pay a fixed interest.

Key terms

Money	Anything widely accepted in exchange for goods and services.
Medium of exchange	Money used to buy and sell goods.
Store of value	Money keeping its value over time.
Barter	Swapping goods without using money.
Central bank	The bank that manages a country's currency and interest rates.
APR	The yearly cost of borrowing, including fees.
Share	Part-ownership of a company.
Dividend	A share of a company's profit paid to shareholders.

Quick questions

Cover the answers and test yourself: remembering is what makes it stick.

1. What is a medium of exchange?
2. What problem does money solve compared with barter?
3. What is a store of value?
4. What does a central bank do?
5. £1,000 is saved at 3% simple interest. How much interest is earned in one year?
6. What is APR?
7. What is a share?
8. What is a dividend?

Answers

1. Money used to buy and sell goods
2. The need for a double coincidence of wants
3. Money keeping its value over time
4. Issues banknotes and sets interest rates
5. £30
6. The yearly cost of borrowing, including fees
7. Part-ownership of a company
8. A share of company profit paid to shareholders

What to do next

Practise 10 questions on this topic

Try 3 exam questions, with mark schemes

Your notes

Read the lesson, one step at a time

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