

# WORKBOOK / ICE TASK - LU 2 → CHAPTER 14

- ① 2. Commercial banks create money...

(2)

(LU 2)

- 2.1 By printing money;
- 2.2 **Through multiple rounds of extending loans and accepting deposits;** (2)
- 2.3 When they buy government bonds from the sarb;
- 2.4 When they increase the amount of excess reserves held.

- ② 2.1 The following monetary aggregates (R millions) were reported in the SARB Quarterly Bulletin of March 2007:

| A       | B                   | C     | D       | E       | F         |
|---------|---------------------|-------|---------|---------|-----------|
| End of: | Coins and banknotes | 2.1.1 | M1      | M2      | M3        |
| 2005    | 43 419              | 2.1.2 | 503 053 | 960 977 | 1 096 241 |

- 2.1.1 What heading should appear in the cell 2.1.1 in the table? (1)

- 2.1.2 Calculate the amount that should appear in cell 2.1.2 in the table. (1)

- 2.1.3 What was the value of long-term deposits at the end of 2005? (1)

- 2.2 Distinguish between active balances and passive balances and mention the main determinant of the quantity demanded of each. (4)

- 2.3 The South African Reserve Bank has four (4) main functions. One (1) of these is maintaining financial stability. List the other three (3) main functions of the South African Reserve Bank. (3)

- ③ The supply of money can be decreased by:

(2)

- (a) Decreasing the required reserve ratio of banks.
- (b) Increasing the required reserve ratio of banks.
- (c) Lowering interest rates.
- (d) The SARB buying government bonds on the open market.

- ④ Q.1.2 The supply of money can be increased by:

(2)

- (a) Increasing the required reserve ratio of banks.
- (b) Decreasing the required reserve ratio of banks.
- (c) Raising interest rates.
- (d) The SARB selling government bonds on the open market.

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Q.2.1 The following monetary aggregates (R millions) were reported in the SARB Quarterly Bulletin of March 2013:

| End of: | Coins and banknotes in circulation | M1        | M2        | M3        |
|---------|------------------------------------|-----------|-----------|-----------|
| 2012    | 81 042                             | 1 035 022 | 1 867 803 | 2 372 188 |

Q.2.1.1 The difference between the value of coins and banknotes in circulation and M1 is an amount of R953 980m. What does this amount represent? (1)

Q.2.1.2 Which one of the aggregates (M1, M2 or M3) represents money's function as a medium of exchange? (1)

Q.2.1.3 What was the value of long-term deposits at the end of 2012? (1)

Q.2.2 According to John Maynard Keynes, there are three motives which determine the demand for money. Which two (2) motives are influenced by the level of income? (2)

Q.2.4 Give the full name of the institution responsible for the formulation and implementation of monetary policy in South Africa. (1)

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2.1 List the four (4) main functions of the South African Reserve Bank. (4)

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2.2 Define monetary policy. (4)



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**Q.2.1** The following monetary aggregates (R millions) were reported in the SARB Quarterly Bulletin of March 2013:

| End of: | Coins and banknotes in circulation | M1      | M2        | M3        |
|---------|------------------------------------|---------|-----------|-----------|
| 2011    | 75 396                             | 947 174 | 1 797 771 | 2 255 567 |

**Q.2.1.1** The difference between the value of coins and banknotes in circulation and M1 is an amount of R871 778m. What does this amount represent? (1)

**Q.2.1.2** Which one of the aggregates (M1, M2 or M3) represents money's function as a medium of exchange? (1)

**Q.2.1.3** What was the value of short-term and medium-term deposits at the end of 2011? (1)

**Q.2.2** Briefly explain how the M1 and M2 aggregates will be affected if funds are moved from a cheque account into a 90-day fixed deposit. (2)

**Q.2.3** Make use of a diagram to show how the equilibrium in the money market changes if the interest rate increases. (2)

**Q.2.4** Briefly explain how accommodation policy and open-market policy can be used to increase the money supply. (2)

**Q.2.5** Which one (1) of the five (5) macroeconomic objectives is seen as the primary responsibility of the South African Reserve Bank? (1)

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**Q.2.1** Make use of a diagram to show how the equilibrium in the money market changes if the level of income in the economy increases. (2)

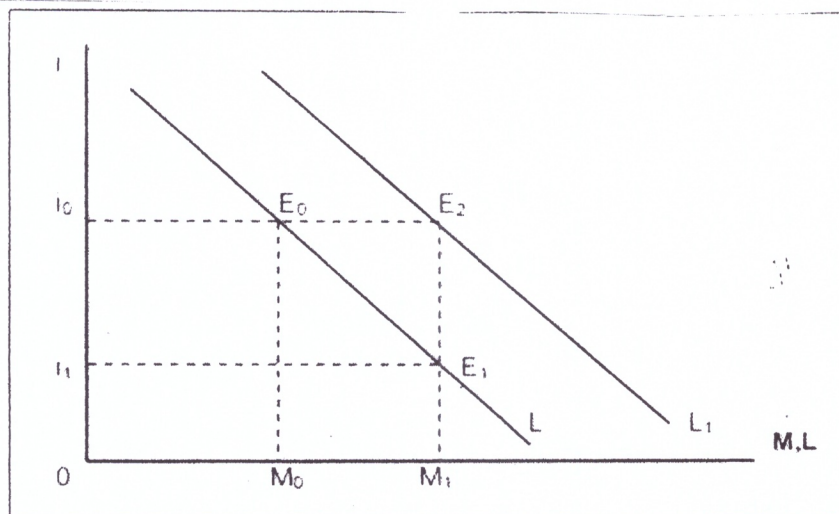
**Q.2.3** Briefly explain how accommodation policy and open-market policy are used to effect an expansionary monetary policy. (4)

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## Question 2

(Marks: 4)

This question relates to equilibrium in the money market. There are four statements that relate to the following diagram. For each one of the statements, you need to indicate whether the statement is True or False.



- Q.2.1 A movement from  $E_1$  to  $E_0$  occurs when there is a decrease in the level of national income. (1)
- Q.2.2 At  $E_0$ , there is equilibrium in the money market at an interest rate of  $i_0$ . (1)
- Q.2.3 An increase in national income will cause a shift of the curve from  $L$  to  $L_1$ . (1)
- Q.2.4 When the interest rate changes from  $i_0$  to  $i_1$ , the opportunity cost of holding money increases. (1)