

Learning activity 9

True/False answers

1. The use of money eliminates the need for a double coincidence of wants associated with a barter economy.

1. True
2. False
2. When inflation is experienced, money loses some of its usefulness as a store of value.

1. True
2. False
3. Individuals can hold their wealth in the form of money only, in other words money is the only possible store of value.

1. True
2. False
4. In South Africa, there are at least three different measures of the quantity of money: M1, M2 and M3.

1. True
2. False
5. M1 is the narrowest measure of money and consists of coins, notes and demand deposits.

1. True
2. False
6. The cash reserve requirement of any South African bank is held in a non-interest-bearing account with the SARB.

1. True
2. False
7. The money creation process is based on the ability of banks to lend part of the deposits they receive to other customers.

1. True
2. False

8. Banks can create demand deposits by granting credit to their clients in the form of overdraft facilities.
1. True
 2. False
9. In South Africa, monetary policy is formulated and implemented by the SARB, which is the country's monetary authority.
1. True
 2. False
10. The rate at which the SARB grants accommodation to the banks is called the repo rate.
1. True
 2. False

Review answers

1. The M3 money supply includes both the **medium of exchange** function of money and the **store of value** function of money.
2. A **stock** concept is measured at a particular point in time while a **flow** concept is measured over a period.
3. Monetary policy in South Africa is applied within an **inflation-targeting** framework.
4. The interest rate that banks have to pay when they borrow money from the Reserve Bank is called the **repo** rate.
5. The following values for M1, M2 and M3 are taken from the Quarterly Bulletin:

Year	M1	M2	Short- and medium- term deposits (5.1) Rm	M3	Long- term deposits (5.2) Rm
2013	1 132 039	2 049 694	917 655	2 512 251	462 557
2014	1 243 571	2 228 790	985 219	2 696 145	467 355

5.1 Calculate the value of short-term and medium-term deposits for 2013 and 2014.

See answers in table above. Short-and medium-term deposits = $M2 \text{ minus } M1$

5.2 Calculate the value of long-term deposits for 2013 and 2014.

See answers in table above – Long-term deposits = $M3 \text{ minus } M2$

6. Discuss the functions of money.

Medium of exchange: Simplifies trade. Money is anything that is generally acceptable as payment for goods and services and which is accepted in settlement of debt.

Measure of value or accounting unit: Makes it possible to compare the value of different goods and services because it is expressed in terms of a common accounting unit.

Store of value: Most liquid form in which wealth can be held. This is not a unique function of money.