

## Short Answer Questions

### Chapter 29.

1. Outline the four functions of money.
2. Using appropriate examples, explain the difference between fiat and commodity money.
3. Why might the use of a debit card be considered money while the use of a credit card might not? Explain your answer.
4. Outline the main differences between M1, M2 and M3 as measures of the money supply in the EU.
5. Outline the main role of the European Central Bank (ECB).
6. Explain how a central bank wishing to reduce base rates would ensure that its target base rates were achieved.
7. Use an example to show how an asset purchasing facility (quantitative easing) feeds through to increased economic activity.
8. Explain the transmission mechanism from a rise in interest rates to a slowdown in the rate of inflation in an economy.
9. Explain how a rise in reserve requirements restricts a bank's lending operations and what you would expect the effect on the money supply in a country would be.
10. Examine some of the problems governments and central banks face in trying to control the money supply.