

1st Year Economics Notes

FBISE First - General Revision

Scarcity / Choice

Demand / Supply - Market / Price

Production / Cost - National Income

Money / Banking

Original study / revision notes only

NOT official. NOT a textbook. NOT a past paper.

NOT leaked material. NOT a guarantee of marks,
questions, or results.

Written in original words for understanding and revision only. No official statistics are quoted. All numerical illustrations are clearly labelled as illustrative examples, not real data.

Each section includes: explanation, important points,
short + long question-answers, and MCQs with answer key.

A revision checklist is given at the end.

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A note before you start

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How to use these notes: read the explanation first, learn the Important Points, try the short questions from memory, then attempt the long questions in your own words. Use the MCQs for quick self-testing.

Section 1: Scarcity and Choice

Explanation

Economics begins with a simple, everyday tension. People want many things - food, clothes, education, health care, rest, and entertainment - but the time, money, and resources available to get them are limited. Scarcity means that wants are greater than the resources available to satisfy all of them at once.

Because resources are limited, every person, family, business, and government has to choose. Choice means picking one use of a resource and giving up another use. When you spend your evening studying one subject, you give up the time you could have spent on another subject or on rest. When a government spends more on one public service, it has less left for another purpose in the same budget.

Economics studies how these choices are made and what results follow from them. It looks at how individuals decide what to buy, how producers decide what to make, and how societies decide how to use land, labour, capital, and organisation. The aim of these notes is understanding, not memorising a definition without meaning.

A related idea is opportunity cost. It is the value of the best alternative given up when a choice is made. It is not always money. It can be time, comfort, or another opportunity. Thinking about opportunity cost helps a decision-maker compare options more honestly, instead of looking only at what is gained.

Important Points

- Wants are unlimited in the sense that new wants keep appearing, while resources remain limited.
- Scarcity exists for rich and poor alike, because no one can have everything at the same time.
- Choice is unavoidable where scarcity exists; not choosing is also a kind of choice, because time and resources still pass.
- Opportunity cost is the best alternative forgone, not every alternative forgone.
- Economics covers both individual decisions and decisions for the whole society.
- Resources are usually grouped as land, labour, capital, and organisation (entrepreneurship).
- A good decision compares both benefit and cost, including the cost of what is given up.

Illustrative Example

Illustrative Example (not real data): A student has two free hours in the evening and two tasks - revising Economics and revising Mathematics. If the student uses both hours for Economics, the opportunity cost is the Mathematics revision given up. If the student splits the time, each subject gets less time, and the trade-off becomes visible. The example only shows how choice works; it does not say which subject the student should choose.

Short Question-Answers

Q: What is scarcity in simple words?

A: Scarcity means limited resources compared with unlimited wants, so not every want can be

satisfied at the same time.

Q: Why does scarcity force choice?

A: Because resources cannot cover all wants at once, a decision-maker must select some wants and leave others for later or give them up.

Q: What is opportunity cost?

A: Opportunity cost is the value of the best alternative that is given up when a choice is made.

Q: Give one difference between a want and a resource.

A: A want is something a person desires, while a resource is something that can be used to produce or obtain goods and services, such as time, labour, or land.

Long Question-Answers

Q: Explain, with reasoning, why scarcity and choice are linked, and why opportunity cost matters in daily decisions.

A: Scarcity and choice are linked because choice only becomes necessary when something is limited. If time, money, and goods were unlimited, a person could take everything without giving anything up, and no difficult decision would arise. In real life, limits are always present. A student has limited study hours, a household has a limited income, and a country has limited land, workers, and funds. Each of these decision-makers must therefore rank wants and decide what matters most at that moment.

Opportunity cost matters because it makes the hidden side of a decision visible. A choice looks attractive when only its benefit is considered. When the alternative given up is also considered, the decision becomes more balanced. For example, spending extra money on one item may look small on its own, but its opportunity cost may be a more useful item that can no longer be bought. Good economic thinking, therefore, is not only about what is chosen, but also about what is sacrificed, and whether that sacrifice is worth it.

Q: Why is Economics called a study of choice? Discuss with reference to individuals and society.

A: Economics is called a study of choice because its central question is how limited resources should be used among competing wants. An individual faces this question when dividing income between needs, savings, and other spending. A producer faces it when deciding what to produce, how much to produce, and which inputs to use. A society faces it when deciding how much attention to give to education, health, transport, defence, and other public needs within a limited budget.

In each case the pattern is the same: wants exceed resources, a selection must be made, and the selection has consequences. Studying these selections - how they are made, what guides them, and what results they produce - is the core work of Economics. That is why scarcity, choice, and opportunity cost appear at the very start of the subject.

MCQs - Try First, Then Check

1. Scarcity arises mainly because:

A. Wants are limited and resources are unlimited

- B. Wants are unlimited and resources are limited
- C. People do not want anything
- D. Money does not exist

2. Opportunity cost is:

- A. The money price of a good
- B. Every alternative given up
- C. The best alternative given up
- D. The total cost of production

3. Which of the following is a resource?

- A. A desire for a new phone
- B. Labour used in a workshop
- C. A wish for holidays
- D. An advertisement

4. Choice becomes necessary when:

- A. Resources are unlimited
- B. Wants are fewer than resources
- C. Resources are limited compared with wants
- D. No one wants anything

5. Not making a decision about limited time still involves a cost because:

- A. Time stops
- B. Time passes and other uses are lost
- C. Money increases
- D. Wants disappear

Answer Key - Scarcity and Choice: 1 = B, 2 = C, 3 = B, 4 = C, 5 = B

Section 2: Demand and Supply

Explanation

Demand means the quantity of a good or service that buyers are willing and able to buy at a given price, in a given period. Willingness alone is not demand. A person may wish for an expensive item but, without the ability to pay for it, that wish does not become demand in the economic sense.

In general, when the price of a good rises, other things remaining the same, buyers tend to buy less of it, and when the price falls, they tend to buy more. This general pattern is called the law of demand. It holds when other factors, such as income, tastes, and the prices of related goods, do not change.

Supply means the quantity that sellers are willing and able to offer for sale at a given price, in a given period. In general, when the price rises, other things remaining the same, sellers are more willing to supply more, because selling becomes more rewarding. When the price falls, they tend to supply less. This general pattern is called the law of supply.

Demand can change for reasons other than price. A rise in income, a change in taste, a change in the price of a substitute or complement, or a change in expectations can shift the whole demand pattern. Supply can likewise change because of changes in the cost of inputs, technology, taxes, or the number of sellers. It is important to separate a change caused by price alone from a change caused by these other factors.

Important Points

- Demand requires both willingness and ability to pay.
- Law of demand: price up, quantity demanded tends to fall; price down, quantity demanded tends to rise, other things equal.
- Law of supply: price up, quantity supplied tends to rise; price down, quantity supplied tends to fall, other things equal.
- A substitute is a good that can be used in place of another; a complement is a good used together with another.
- Income, tastes, expectations, and prices of related goods can shift demand.
- Input costs, technology, and number of sellers can shift supply.
- Do not confuse a movement caused by price with a shift caused by other factors.

Illustrative Example

Illustrative Example (not real data): Imagine a small shop selling notebooks. If the price is lowered for a short promotion, more students may decide to buy, because the notebook now fits more budgets. If the price is raised sharply, some students may postpone buying or choose a cheaper alternative. This simple illustration shows the direction of the demand pattern; it does not give a real market price or quantity.

Short Question-Answers

Q: Define demand.

A: Demand is the quantity of a good or service that buyers are willing and able to buy at a given price in a given period.

Q: State the law of demand in one sentence.

A: Other things remaining the same, when price rises, quantity demanded tends to fall, and when price falls, quantity demanded tends to rise.

Q: What is the difference between a substitute and a complement?

A: A substitute can replace another good, while a complement is used together with another good.

Q: Name two factors, other than price, that can shift demand.

A: Any two of: income, tastes or preferences, prices of related goods, expectations about future prices, or number of buyers.

Long Question-Answers

Q: Explain why demand changes when price changes, and why demand can also change when price does not change.

A: When price changes and other factors stay the same, buyers adjust the quantity they buy because the good becomes relatively cheaper or more expensive compared with other uses of their money. A fall in price means the same income can buy more of the good, so quantity demanded tends to rise. A rise in price means the same income buys less, so quantity demanded tends to fall. This is a movement along the existing demand pattern.

Demand can also change when price does not change, because buyers' conditions change. If incomes rise, buyers may be able to buy more at the same price. If tastes change in favour of a good, more buyers want it at the same price. If the price of a substitute rises, buyers may switch to this good. If buyers expect a future price rise, they may buy earlier. In these cases the whole pattern shifts, because at every price the quantity demanded is now different. Keeping these two kinds of change separate avoids confusion in analysis.

Q: Explain the law of supply and two factors that can shift supply, with reasoning.

A: The law of supply states that, other things remaining the same, a higher price tends to bring forth a larger quantity supplied, and a lower price tends to bring forth a smaller quantity. The reason is incentive: at a higher price, producing and selling become more rewarding, so existing sellers may produce more and new sellers may enter. At a lower price, the reward falls, so sellers may reduce output or leave the activity.

Supply can shift even when price is unchanged. First, if the cost of inputs rises, producing becomes more expensive, so sellers may supply less at the same price. Second, if better technology lowers production cost or raises output from the same inputs, sellers may supply more at the same price. Both cases shift the whole supply pattern, rather than causing a movement along it.

MCQs - Try First, Then Check

1. According to the law of demand, other things equal, a rise in price leads to:

A. A rise in quantity demanded

- B. A fall in quantity demanded
- C. No change in demand
- D. A rise in income

2. Demand requires:

- A. Willingness only
- B. Ability to pay only
- C. Both willingness and ability to pay
- D. Neither willingness nor ability

3. If the price of tea rises, demand for coffee (a substitute) is likely to:

- A. Fall
- B. Rise
- C. Stay exactly the same
- D. Disappear

4. A fall in input costs is likely to:

- A. Shift supply to the left
- B. Increase quantity demanded only
- C. Shift supply to the right
- D. Reduce the number of buyers

5. Which factor shifts demand rather than causing a movement along it?

- A. A change in the good's own price
- B. A change in buyers' income
- C. A change in quantity supplied
- D. A change in the good's own price alone

Answer Key - Demand and Supply: 1 = B, 2 = C, 3 = B, 4 = C, 5 = B

Section 3: Market and Price

Explanation

A market, in Economics, is not only a physical place. It is any arrangement through which buyers and sellers come into contact to exchange goods or services. A street shop, an online store, and a wholesale grain arrangement can all be markets, because in each case buying and selling take place.

Price is normally determined by the interaction of demand and supply. When buyers want more than sellers are offering at a given price, there is pressure for the price to rise. When sellers are offering more than buyers want at a given price, there is pressure for the price to fall. The price at which quantity demanded equals quantity supplied is called the equilibrium price, and the corresponding quantity is the equilibrium quantity.

Equilibrium is a point of balance, not a permanent fixed price. If demand rises while supply stays the same, the equilibrium price tends to rise. If supply rises while demand stays the same, the equilibrium price tends to fall. Understanding these directions helps a student explain price changes without guessing.

Different market forms exist, depending on the number of sellers, the nature of the product, and the ease of entry. In a highly competitive market with many sellers selling similar products, no single seller can easily control the price. In other forms, a single seller or a small number of sellers may have more influence. The key point for revision is to compare market forms by these features, not by memorising names alone.

Important Points

- A market is an arrangement for exchange, not necessarily a physical place.
- Equilibrium price is where quantity demanded equals quantity supplied.
- Excess demand tends to push price up; excess supply tends to push price down.
- A rise in demand, supply unchanged, tends to raise equilibrium price.
- A rise in supply, demand unchanged, tends to lower equilibrium price.
- Market forms differ by number of sellers, product type, and ease of entry.
- Equilibrium can change when demand or supply shifts; it is not fixed forever.

Illustrative Example

Illustrative Example (not real data): Suppose in a small local market, at a certain price, buyers want 100 units in a week but sellers offer only 60 units. Buyers competing for the limited units tend to push the price up. As price rises, some buyers buy less and some sellers offer more, until the quantities meet. That meeting point illustrates equilibrium. The numbers are invented only to show the logic, not a real market outcome.

Short Question-Answers

Q: What is a market in Economics?

A: A market is any arrangement through which buyers and sellers come into contact to exchange goods or services.

Q: What is equilibrium price?

A: Equilibrium price is the price at which quantity demanded equals quantity supplied.

Q: What happens when there is excess demand?

A: Excess demand tends to put upward pressure on price, as buyers compete for limited supply.

Q: If supply rises and demand stays the same, what tends to happen to price?

A: Equilibrium price tends to fall, because more is offered than buyers wanted at the old price.

Long Question-Answers

Q: Explain how equilibrium price is reached, and why it changes when demand or supply changes.

A: Equilibrium is reached through the interaction of buyers and sellers. At a price above equilibrium, sellers offer more than buyers want. Unsold stock creates pressure to lower the price, which encourages buyers to buy more and sellers to offer less. At a price below equilibrium, buyers want more than sellers offer. Competition among buyers creates pressure to raise the price, which encourages sellers to offer more and buyers to buy less. The process continues until quantity demanded equals quantity supplied.

Equilibrium changes when either side shifts. If demand rises, at the old price buyers now want more than sellers offer, so price is pushed up to a new balance. If supply rises, at the old price sellers now offer more than buyers want, so price is pushed down to a new balance. In both cases the new equilibrium reflects the new balance of demand and supply, not a decision by one person alone.

Q: Why is it useful to compare market forms instead of only naming them?

A: Naming a market form does not explain how it works. Comparing market forms by the number of sellers, whether products are similar or differentiated, and how easy it is for new sellers to enter shows why price behaviour differs. Where many sellers sell similar products, competition limits any one seller's power over price. Where there is only one seller, that seller has more influence, but still faces limits from buyers' willingness to pay and from possible substitutes. This comparative approach helps a student analyse a new example, rather than only recalling a label.

MCQs - Try First, Then Check

1. Equilibrium price is the price at which:

- A. Demand is zero
- B. Supply is zero
- C. Quantity demanded equals quantity supplied
- D. Price is highest

2. Excess supply tends to:

- A. Raise price
- B. Lower price
- C. Raise demand permanently
- D. Stop all trade

3. If demand rises and supply stays the same, equilibrium price tends to:

- A. Fall
- B. Stay the same
- C. Rise
- D. Become zero

4. A market in Economics must be:

- A. A physical building
- B. An arrangement for exchange between buyers and sellers
- C. A government office
- D. A single shop only

5. If supply rises and demand stays the same, equilibrium quantity tends to:

- A. Fall only
- B. Rise
- C. Stay the same
- D. Become zero

Answer Key - Market and Price: 1 = C, 2 = B, 3 = C, 4 = B, 5 = B

Section 4: Production and Cost

Explanation

Production means creating goods or providing services that satisfy wants. It is not only factory work. Farming, teaching, transport, shopkeeping, and health care all involve production in the economic sense, because they create value or usefulness.

Production uses inputs, often called factors of production: land, labour, capital, and organisation. Land includes natural resources. Labour is human effort, physical and mental. Capital includes tools, machines, and buildings used to produce other goods - not money alone. Organisation brings the other factors together and takes decisions about production.

Cost means what is given up to produce something. In the short run, some costs do not change when output changes, such as rent for a fixed space, while other costs change with output, such as raw material or hourly labour for extra units. In the long run, more factors can be changed, so the distinction between fixed and variable becomes less rigid.

A useful idea is the difference between total, average, and marginal concepts. Total cost is the sum of all costs for a given output. Average cost is total cost divided by output. Marginal cost is the extra cost of producing one more unit. Thinking marginally - asking what one more unit adds - is central to production decisions.

Important Points

- Production creates goods or services that satisfy wants; it is broader than factory work.
- Factors of production: land, labour, capital, and organisation.
- Capital in Economics means produced means of production, not money by itself.
- Fixed costs do not change with output in the short run; variable costs do.
- Total cost = fixed cost + variable cost, in the short-run picture.
- Average cost = total cost divided by quantity produced.
- Marginal cost = extra cost of one additional unit.

Illustrative Example

Illustrative Example (not real data): A small bakery pays rent for its shop whether it bakes a little or a lot in a week - that part behaves like a fixed cost in the short run. Flour, sugar, and packaging rise when more cakes are baked - those behave like variable costs. If baking one extra cake needs a little more flour and packaging, that extra expense illustrates marginal cost. The figures are not given because the point is the logic, not a real bakery's accounts.

Short Question-Answers

Q: Define production in Economics.

A: Production is the creation of goods or provision of services that satisfy human wants.

Q: Name the four factors of production.

A: Land, labour, capital, and organisation.

Q: What is the difference between fixed and variable cost?

A: Fixed cost does not change with output in the short run, while variable cost changes as output changes.

Q: What is marginal cost?

A: Marginal cost is the extra cost of producing one additional unit of output.

Long Question-Answers

Q: Explain the factors of production and why organisation is counted separately from labour.

A: Land covers natural resources such as soil, water, and minerals. Labour covers human effort, both physical and mental, applied in production. Capital covers tools, machines, buildings, and equipment that help produce other goods; money alone is not capital in this sense, because money by itself does not bake, build, or transport. Organisation is the factor that combines land, labour, and capital, takes decisions, bears risk, and coordinates production.

Organisation is counted separately because combining factors is a distinct task. Workers may be skilled, and machines may be available, yet without planning, coordination, and decision-making, production may be disorganised and wasteful. The organiser decides what to produce, how to combine inputs, and how to respond to change. That coordinating and risk-bearing role is different from the direct effort of labour, so Economics treats it as its own factor.

Q: Explain fixed, variable, total, and average cost, and why marginal cost matters for decisions.

A: Fixed costs remain the same in the short run even if output changes, for example rent on a fixed space. Variable costs rise or fall with output, for example raw materials. Total cost is the sum of fixed and variable costs for a given level of output. Average cost spreads total cost over each unit produced, by dividing total cost by quantity.

Marginal cost matters because most production decisions are about one more unit, not about all units at once. A producer asking whether to produce an extra batch should compare the extra revenue from that batch with its marginal cost, not only with average cost. If the extra unit adds more than it brings in, producing it reduces overall gain. This marginal way of thinking helps avoid decisions based only on totals or averages.

MCQs - Try First, Then Check

1. Which of the following is capital in the economic sense?

- A. Cash in a pocket
- B. A machine used in a workshop
- C. A wish to buy a machine
- D. Money saved at home

2. In the short run, rent for a fixed shop is usually an example of:

- A. Variable cost
- B. Fixed cost
- C. Marginal revenue
- D. Total output

3. Average cost is calculated as:

- A. Total cost plus quantity
- B. Total cost divided by quantity
- C. Fixed cost minus variable cost
- D. Marginal cost times quantity

4. Marginal cost means:

- A. Total cost of all units
- B. Cost per unit on average
- C. Extra cost of one more unit
- D. Cost of the first unit only

5. Organisation as a factor mainly involves:

- A. Only physical effort
- B. Combining factors, deciding, and coordinating production
- C. Owning land only
- D. Using money only

Answer Key - Production and Cost: 1 = B, 2 = B, 3 = B, 4 = C, 5 = B

Section 5: National Income

Explanation

National income is a broad measure of the total income earned, or the total value of goods and services produced, in a country over a period, usually a year. It gives a general picture of the scale of economic activity, rather than a judgement about any single person's well-being.

The same total can be viewed from different angles: what is produced, what income is earned from producing it, and what is spent on it. In principle, these three views should be linked, because production creates income, and income is then spent or saved. In practice, measurement is difficult, and different methods and adjustments produce different headline measures.

National income figures need careful reading. A rise in the total may reflect more goods and services, higher prices, population change, or a mix of these. A total alone does not show how income is distributed, what kind of goods are produced, or how much unpaid household work or informal activity is counted. For revision, the key skill is to explain what national income measures, and what it does not measure, without inventing a figure for any country.

No specific national income figure, growth rate, or per-person figure is quoted in these notes, because such figures change with the year, the source, and the method, and quoting an unchecked figure would mislead revision. Students should learn the concepts and, if their teacher asks for a current figure, check an official source for that year and note the source and date.

Important Points

- National income measures total production or total income over a period, usually a year.
- Production, income, and expenditure views are linked in principle.
- A rise in the total does not by itself prove that every person is better off.
- Price changes can raise a money total without a rise in real output.
- Distribution, quality of goods, and unpaid work are not fully shown by a single total.
- Measurement is difficult, especially where informal activity is large.
- Always note the year, source, and method when a real figure is used in class.

Illustrative Example

Illustrative Example (not real data): Imagine a very small closed economy with only two producers - a farmer and a tailor. The value of what they produce in a year, the income they earn from that production, and the spending on their products are three ways of looking at the same yearly activity. If prices double but the physical amounts stay the same, the money total doubles while real output does not. This invented miniature shows why a money total and real output must not be confused.

Short Question-Answers

Q: What does national income broadly measure?

A: It broadly measures the total value of goods and services produced, or total income earned, in a country over a period, usually a year.

Q: Why can a money total rise without real output rising?

A: Because higher prices can raise the money value even when the physical quantity of goods and services stays the same.

Q: Name one thing national income does NOT show by itself.

A: Any one of: how income is distributed, the quality of goods, unpaid household work, or overall well-being.

Q: Why should a real figure be quoted with year and source?

A: Because figures change by year, source, and method, so a figure without year and source cannot be checked or compared fairly.

Long Question-Answers

Q: Explain the production, income, and expenditure views of national income, and why they are linked.

A: The production view adds up the value created by producers in different activities. The income view adds up the incomes earned from that production, such as wages, rent, interest, and profit. The expenditure view adds up spending on final goods and services. They are linked because production is the source of income, and income is the source of spending. When a good is produced and sold, the seller receives income, and the buyer spends income. In a complete and consistent account, the three totals should agree, apart from measurement gaps and adjustments.

In practice, the totals may differ because data are incomplete, some activities are hard to record, and different adjustments are needed for items such as taxes, subsidies, and wear and tear on capital. Understanding the link helps a student see why national income is one picture viewed from three sides, not three unrelated numbers.

Q: Discuss the limitations of national income as a measure of well-being.

A: National income measures the scale of market production and income, not well-being directly. First, it does not show distribution: a high total can coexist with wide gaps between rich and poor. Second, it does not fully capture unpaid work, such as household care, or informal activity that is not recorded. Third, it counts output without judging whether the output improves life - for example, spending after damage may raise the total without improving well-being. Fourth, it does not show environmental costs, leisure time, health, or education quality by itself.

For these reasons, national income is best used as one indicator among others. A careful answer states what the figure shows, notes its limits, and avoids claiming that a higher total automatically means a better life for everyone.

MCQs - Try First, Then Check

1. National income is usually measured over:

- A. One day
- B. One week only
- C. A period, usually a year
- D. One hour

2. The production, income, and expenditure views are linked because:

- A. They are unrelated totals
- B. Production creates income, and income funds spending
- C. They use different countries
- D. They measure different years

3. A rise in prices alone, with physical output unchanged, will:

- A. Leave the money total unchanged
- B. Raise the money total without raising real output
- C. Reduce real output to zero
- D. Stop all production

4. National income by itself does NOT show:

- A. Total production value
- B. Income distribution in detail
- C. Total income earned
- D. Total spending on final goods

5. When quoting a real national income figure, a student should note:

- A. Only the figure
- B. The year, source, and method
- C. Only the country name
- D. No details at all

Answer Key - National Income: 1 = C, 2 = B, 3 = B, 4 = B, 5 = B

Section 6: Money and Banking

Explanation

Money is anything generally accepted as a medium of exchange, a measure of value, a store of value, and a standard for future payments. In modern economies, coins, notes, and bank deposits used for payments all perform money functions, even though their physical forms differ.

Money solves a problem of direct exchange. Without money, a person wanting a good would need to find someone who both has that good and wants what the person offers in return. Money breaks that double requirement: a seller accepts money because it can later be used to buy something else.

A bank is an institution that accepts deposits, lends, and provides payment services. Banks act as intermediaries: they gather deposits from savers and lend to borrowers, while keeping reserves and managing risk. This intermediation helps savings reach productive uses, but it also requires trust, sound lending, and supervision.

The central bank is distinct from commercial banks. It issues currency, acts as banker to the government and to banks, and influences money and credit conditions in the economy. Commercial banks serve the public directly through deposits, loans, and payment services. Keeping these two roles separate is essential for clear answers.

Important Points

- Functions of money: medium of exchange, measure of value, store of value, standard of deferred payment.
- Money avoids the double coincidence problem of direct barter exchange.
- A bank accepts deposits, lends, and provides payment services.
- Banks intermediate between savers and borrowers.
- The central bank issues currency and acts as banker to banks and government.
- Commercial banks serve the public directly; the central bank does not compete with them in the same way.
- Trust and sound lending are central to banking; a bank lends depositors' funds, so care is required.

Illustrative Example

Illustrative Example (not real data): A student sells old books and receives money. The student does not need to find a buyer who also offers exactly what the student wants next. The money can be saved, or later used to buy stationery from a different seller. This illustrates the medium-of-exchange and store-of-value functions. No real price, bank rate, or account figure is involved.

Short Question-Answers

Q: List the four main functions of money.

A: Medium of exchange, measure of value, store of value, and standard of deferred (future) payment.

Q: What problem does money solve compared with barter?

A: It solves the need for a double coincidence of wants - finding someone who has what you want and wants what you have.

Q: What is the main difference between a central bank and a commercial bank?

A: The central bank issues currency and acts as banker to banks and government, while commercial banks accept deposits from the public and lend to the public.

Q: How do banks act as intermediaries?

A: Banks gather deposits from savers and lend to borrowers, channelling savings toward spending and investment.

Long Question-Answers

Q: Explain the functions of money and why each function matters.

A: As a medium of exchange, money is generally accepted in return for goods and services, so trade does not depend on direct swapping. As a measure of value, money provides a common unit for comparing prices, so buyers and sellers can judge relative worth without comparing every good with every other good. As a store of value, money allows purchasing power to be held for future use, although its usefulness as a store depends on its value remaining reasonably stable. As a standard of deferred payment, money allows debts and future payments to be stated in a unit both sides understand.

Each function supports the others. Without general acceptance, money could not serve as a measure or store. Without a stable measure, comparing prices and planning future payments would be difficult. Together, these functions explain why money is more than a piece of paper or a number in an account: it is a shared social arrangement that makes exchange, planning, and saving workable.

Q: Explain the role of banks and the distinct role of the central bank.

A: Commercial banks accept deposits, keep part as reserves, lend the rest to households and businesses, and provide payment services such as transfers and cheques or electronic payments. By doing so, they connect savers who have surplus funds with borrowers who need funds for consumption, business, or investment. Good lending requires checking the borrower's ability to repay, because the funds lent largely belong to depositors.

The central bank sits above commercial banks. It issues currency, holds reserves of banks, acts as banker to the government, and influences overall money and credit conditions. It also acts as a lender of last resort in a crisis, within its rules. The distinction matters: commercial banks compete to serve customers, while the central bank sets the framework within which they operate and safeguards stability. Confusing the two roles leads to confused answers about who issues currency and who lends to the public.

MCQs - Try First, Then Check

1. Which is a function of money?

- A. Creating wants
- B. Medium of exchange

- C. Producing goods directly
- D. Removing scarcity

2. Barter requires:

- A. Money only
- B. A double coincidence of wants
- C. A bank account
- D. A central bank

3. A commercial bank mainly:

- A. Issues currency for the country
- B. Accepts deposits and lends to the public
- C. Sets the national budget
- D. Collects all taxes

4. Issuing currency is mainly the role of:

- A. A commercial bank
- B. A shopkeeper
- C. The central bank
- D. A borrower

5. Money as a store of value means it can:

- A. Be eaten
- B. Hold purchasing power for future use
- C. Produce goods by itself
- D. Remove all risk

Answer Key - Money and Banking: 1 = B, 2 = B, 3 = B, 4 = C, 5 = B

Revision Checklist

Tick only what you can explain in your own words, without looking.

- ☐ Scarcity and Choice: I can explain scarcity, choice, and opportunity cost, with one everyday example.
- ☐ Scarcity and Choice: I can name the factors of production and explain why choice is unavoidable.
- ☐ Demand and Supply: I can state the laws of demand and supply, other things equal.
- ☐ Demand and Supply: I can explain the difference between a price movement and a shift caused by other factors.
- ☐ Demand and Supply: I can explain substitutes, complements, and two demand shifters / two supply shifters.
- ☐ Market and Price: I can define a market and equilibrium price.
- ☐ Market and Price: I can explain what excess demand and excess supply tend to do to price.
- ☐ Market and Price: I can predict the direction of price change when demand rises or supply rises alone.
- ☐ Production and Cost: I can name and explain land, labour, capital, and organisation.
- ☐ Production and Cost: I can explain fixed vs variable cost, total cost, average cost, and marginal cost.
- ☐ National Income: I can explain what national income measures and its three views.
- ☐ National Income: I can explain why a money total can rise without real output rising, and list its limitations.
- ☐ Money and Banking: I can list the four functions of money and explain the barter problem money solves.
- ☐ Money and Banking: I can explain banks as intermediaries and the distinct role of the central bank.
- ☐ General: I can answer the short questions in each section from memory, and write a long answer in my own words.
- ☐ General: I have re-attempted any MCQ I got wrong, and I know why the correct option is correct.

Final Note

Original study / revision notes only. This is NOT an official FBISE publication, NOT a textbook, NOT a past paper, NOT leaked material, and NOT a guarantee of marks, questions, or results. Written in original words for understanding and revision only. No official statistics are quoted in these notes. If your teacher or textbook gives a different wording, follow your teacher's guidance for class work. These notes are for understanding and revision support only.