**RWS15: Financial Markets and Banking**

**Due for 20th November 2017**

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| **GENERAL INSTRUCTIONS:**  *Please complete a revision worksheet summarizing the work from the last two to three weeks. The work should be taking you* ***up to 2 hours*** *to complete and should consist of a 1 A4 double paged summary based on the questions below. Please print out a double sided version to be handed in and marked on the date above (emails will not be accepted so make sure you are printing off your sheet before the lesson).*  *Remember to use all of the space over your two sides of A4 and make sure the ‘margins’ in Word are put as ‘narrow’. Feel free to reduce the size of the font if you are running out of space but nothing less than size 10. A better way to reduce would be to reread what you have written and try to be more succinct; it must fit onto two sides of A4 only!*  *You should be reading and using all the compulsory resources below (remember you will have already read an awful lot of these for homework and in class but there are a few extras I want you to read.*  *This revision worksheet should be taking you 2.25 to 3 hours…I suggest you spend 45 minutes writing up all your notes from class into a rough draft. Then, spend the next 45m-1.5hrs reading the compulsory resources and any extra information or clarifying concepts if you do not understand them. Then use the final 30-45 minutes to edit the work, make it look pretty and print it off.*  *When you hand in these revision worksheets, they are not speculative attempts to see if you understand the material; I am expecting you to have spent the time in and out of the classroom learning it. Thereforeo make use of the extra support available to you: (1) emails to Olly to seek clarification on specific points (2) Economics lunchtime workshop drop ins on Mondays, Wednesdays and Fridays in room 206 (3) 1-2-1 15 minute slot outside of lessons.*  *REMEMBER THAT IF YOU DO NOT HAVE A PRINTER AT HOME YOU MUST FIND TIME BEFORE THE LESSON TO PRINT IT OFF AT COLLEGE*  *ALSO MAKE SURE THAT AS WELL AS STORING A COPY ON A MEMORY STICK, YOU ALSO EMAIL YOURSELF SO THERE CAN BE NO COMPUTER ISSUES WHEN IT COMES TO PRINTING OFF YOUR WORK* |
| **SOURCES**  **Compulsory (YOU MUST MAKE SURE YOU HAVE USED THESE SOURCES)**   1. **TEXTBOOK (see GOL Library Page to download for free or buy online - £20-25):** pp 226-246 2. **NOTES:** Class and PREP homework notes (in your bag!) including department worksheets issued in class (available on GOL). Remember to include the PREP work as well! This is important for context and case studies. 3. **POWERPOINT:** See the powerpoint slides on GOL for access to my notes. 4. **ARTICLES on GOL:**    * ARTICLE – Bitcoin Introduction   **EXTENSION (IF YOU HAVE TIME, TRY TO ACCESS THESE ARTICLES)**   1. Recommended Websites:    * Economics Help Website    * Tutor2U Website 2. Other specific resources:    * ARTICLE – 2017 Nov and Bank Market    * ARTICLE – Financial Crisis Looming SEP 17    * ARTICLE – Money as M-Pesa   **ALL OF THESE RESOURCES CAN BE FOUND ON GODALMING ONLINE – ANY ISSUES, EMAIL OLLY on** [**ods@godalming.ac.uk**](mailto:ods@godalming.ac.uk) |

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| **SPECIFIC INSTRUCTIONS:**  **TITLE: RWS15 – Financial Markets and Banking**   1. **What is Money (1/2 a side of A4)**    1. What are the three key functions of money?    2. What is the difference between ‘commodity’, ‘representative’ and ‘fiat’ money? What type of money do we use today in the UK?    3. Where does money come from? Traditional economic theory suggests money evolved from barter; explain this model? Also argue as to why this might not be the case?    4. What is ‘Bitcoin’ and to what extent is it an effective form of money (or currency)? 2. **The role of Financial Markets in the Economy (1/2 a side of A4)**    1. What role do financial institutions play in the economy of a country? Why might an economy with a well developed set of financial markets grow more quickly than one without?    2. Define the money, capital and foreign currency markets using examples to explain what is trade in each market    3. Explain how Government’s raise finance? (talk about Government bonds, primary & secondary bond markets. Why is inflation the enemy of the bondholder and why is there an inverse relationship between bond prices and the bond yields (or interest/coupon rate)    4. Explain how firms can raise finance? (remember to include debt.v.equity arguments; which is the best form of finance?) 3. **The role of banks (1/2 a side of A4)**    1. What are the three types of banks and provide a brief overview to the banking market in the UK    2. How do banks work as a business? Explain how banks make profits, using balance sheets to help explain your answer.    3. What does it mean when a banking firm is (i) insolvent and (ii) illiquid? Use the concepts of balance sheets to explain why.    4. Why are their conflicts between security and liquidity .v. profit for a bank? Why does this have implications for the rest of the economy (think about systemic risk and ‘too big to fail’)    5. Why have banks come in for criticism in recent years? 4. **Market failure in the financial markets (1/2 a side of A4)**    1. Explain how banks create money (fractional reserve banking) and evaluate why this might be considered to be a market failure (remember when you evaluate you put both sides of the story down…perhaps in a table!)    2. Provide an overview of the financial crisis of 2007-2008 – what were the causes and effects?    3. Define the following market failures: systemic risk, moral hazard and asymmetric information and provide examples for each one |