

Money & Banking Questions

2000 Q6

6. (a) Commercial banks have the ability to create credit.
- (i) Explain how the commercial banks can create credit.
 - (ii) State and explain **THREE** limitations on banks' power to create credit. (35 marks)
- (b) A bank wishes to be as profitable as possible, yet it must retain sufficient funds to meet its customers' demands for cash.
How does it attempt to reconcile these conflicting objectives? (20 marks)
- (c) Trace the likely economic effects if:-
- (i) the supply of money grows at a **faster** rate than a country's production of goods and services;
 - (ii) the supply of money grows at a **slower** rate than a country's production of goods and services. (20 marks)
- [75 marks]**

2002 Q5

- (a) (i) Explain how it is possible for banks to create credit.
- (ii) State and explain **THREE** limitations on the amount of credit which banks can create. (30 marks)
- (b) Explain how an increase in the use of 'plastic money' (credit cards, etc.) by customers affects the ability of banks to create credit. (15 marks)

2003 Q5

(a) Discuss the ways in which money can contribute to the smooth working of an economy. *(20 marks)*

(b) Explain the likely economic effects if:

(i) the supply of money grows at a **faster** rate than a country's production of goods and services

(ii) the supply of money grows at a **slower** rate than a country's production of goods and services.

(20 marks)

2005 Q7

(b) The Central Bank (now called the Central Bank and Financial Services Authority of Ireland) continues to play a very important economic role in the Irish economy. Explain the role it plays in the Irish economy. *(30 marks)*

2009 Q4

(a) 'Banks may fail by over-extending their loan book'. Explain this statement within the context of a bank's twin requirements of liquidity and profitability. *(25 marks)*

(c) Outline how the recent tightening (reduction) in the availability of credit may affect:

(i) The Irish Motor Industry;

(ii) Inflation;

(iii) Ireland's Balance of Payments.

(20 marks)

[75 marks]

2010 Q6

- (a) It has been suggested that the main commercial (retail) banks in Ireland should be nationalised.
- (i) Explain the underlined terms.
 - (ii) Outline **two** possible economic arguments for and **two** possible economic arguments against the nationalisation of the banks.

(30 marks)

2011 Q6

- (a) Money is usually defined by reference to the functions it performs.

- (i) Outline **four** functions of money.
- (ii) Explain the term 'Monetary Policy'.
- (iii) Explain a central bank's function as 'lender of last resort'.

(35)

- (b) Many believe that a lack of supervision ('light-touch regulation') of financial institutions in Ireland contributed significantly to the banking crisis.

Discuss the economic reasons why commercial banks in Ireland should be regulated.

(20)

- (c) It is being suggested that the ECB will increase interest rates in the 2011/2012 period. Explain the economic effects of rising interest rates on the Irish economy.

(20)

2013 Q6

- (a) (i) Explain, using a numerical example, how banks create credit in an economy.
(ii) Outline **two** factors which limit the ability of banks to create credit during recessionary times. (30)

- (b) Some central banks have responded to the global financial crisis by introducing the monetary policy measure of 'Quantitative Easing' (i.e. buying financial assets from financial institutions using new money it has created).

- (i) Outline **two** possible economic effects of this measure for an economy.

The European Central Bank (ECB) reduced interest rates in 2012.

- (ii) Discuss **two** possible economic benefits of falling interest rates for the Irish economy.

(20)

2015 Q5

- (a) (i) Outline **three** factors that limit the ability of banks to create credit.
(ii) Discuss the economic reasons why the financial system in Ireland should be regulated. (30)

- (b) *In January 2015, the Central Bank of Ireland (CBI) introduced restrictions on residential mortgage lending (bigger deposit requirement for mortgage loans and upper limits on borrowing based on income).*

State and explain the possible economic impacts of these restrictions on the Irish property market. (20)

- (c) *The Strategic Banking Corporation of Ireland (SBCI) was set up to support SMEs (small and medium enterprises) by providing finance under favourable terms (e.g. lower cost credit).*

Discuss the possible economic benefits of increased access to funding for the SME sector in Ireland. (25)

2018 Q7

- (b) Outline the economic advantages of effective regulation of the banking sector. Your answer should include advantages for citizens **and** advantages for the banking industry. [25]

2019 Q5

- (b) *The President of the European Central Bank, Mario Draghi, has outlined his intentions to increase the ECB's base interest rate from its historic low of 0%.*

(Source: www.ft.com, June 2018)

Given the current state of the Irish economy, outline the possible arguments **against** an increase in the interest rate. [20]