

. Appendix 2 – Part B Short answer questions marking guide

1. Discuss whether Bitcoin is money. [2 marks]

Answer is

Money has three roles in a modern economy and it is efficient if the same thing (i.e. currency) can deliver on all three roles. Does Bitcoin do this?

a. Store of value

Something that will retain its value in a predictable way over time without perishing, so that transactions planned for a later date can rely on the store holding its value until then.

Bitcoin is not a reliable store of value, it can perish e.g. lose your access passwords. Also speculative values at present rather than predictable. So can't plan ahead for future transactions.

b. Unit of account

An agreed unit value so that all transactions have a common reference point for valuation

Bitcoin unit value is observable due to trading market information but not stable and no agreed value (more like a share than a unit of currency)

c. Medium of exchange

Something that has the ability to be swapped (traded), and everyone is prepared to use it for this purpose

Bitcoin is accepted as a medium of exchange by some, but by no means everyone.

Conclusion is Bitcoin is not generally accepted as money but may develop the required characteristics over time.

Marking Guide

0.5 for each role identified, 0.5 for each plausible assessment of Bitcoin against a role, with overall max 2 marks

Subject materials Module 03 page 20 and core reading Money in the Modern Economy page 2

2. Using a home loan for \$350,000 as the example, explain how money is created and destroyed. [2 marks]

Answer is

- Commercial banks make new loans (eg the home mortgage)
- The bank credits the mortgage holder (property buyer) with a deposit into an account in their name held at the bank, creating money
- The amount is then transferred to an account held by the entity selling the house to conclude the property transaction'
- The seller has received the money (and holds in a deposit with their bank)
- Mortgage holder is left with a debt to the bank
- The seller now has money on deposit (new money), the buyer has a property and a liability (loan value) and the bank has an asset (loan value)
- As the buyer pays off their loan, the bank's asset declines, money is destroyed.

Marking Guide

0.5 marks for any correct point, 2 marks for any coherent set of steps that involves bank issuing a loan to create money and repayments destroying money

Subject materials Module 03 Page 22 and core reading Money creation in the modern economy page 16

3. Give four reasons why unlisted property valuations are quite subjective. [2 marks]

Answer is

- Every property has unique features (heterogenous market) making it difficult to apply the price of one property to another
- Limited number of buyers at any one time and limited number of available properties at any one time (illiquid market), 'fire sale' pricing may not reflect underlying value
- There is infrequent trading activity so last trade may no longer be a guide
- There is no central market with quoted prices
- Information about a property is limited and/or confidential
- Many pricing factors are themselves subjective or difficult to estimate, e.g. future demand for location by tenants, quality of property, quality of tenants, standard (and cost) of refurbishment required, etc

Marking Guide

0.5 marks each distinct point with maximum 2 marks

Subject materials Module 04 page 13-14

4. Give four reasons why the trustee of a self-managed superannuation fund might consider an overseas investment for the fund's portfolio. [2 marks]

Answer is

- Risk and return characteristics of overseas asset class (market) compare favourably to local asset class (market) ie better meet investor's objectives
- To diversify, particularly as the lower the level of correlation of market returns between countries invested, the more diversification benefits
- Access to industries not operating in home country (leading to diversification benefits)
- Variation in market expectations and pricing between countries, some countries may be undervalued and hence a buying opportunity (arbitrage)
- To exploit expected changes in exchange rates

Marking Guide

0.5 marks each distinct point with maximum 2 marks

Subject materials Module 04 page 17

5. Market participants can be grouped into suppliers of capital, users of capital and intermediaries. Identify the group(s) where commercial banks fit and explain why. [2 marks]

Answer is

- In its simplest form, corporations use (demand) capital and households supply it.
- Banks have a clear role as intermediaries by offering bank accounts to all parties that facilitate the flow of capital from one to the other, and providing other services related to holding/investing capital
- (Investment) banks also have an intermediary role assisting companies to raise capital, including advising the company, finding buyers, guaranteeing to buy shares on IPOs.
- Banks also supply money, by issuing loans to householders and companies
- Banks also require capital to operate (as they are companies) so also are users of capital

Marking Guide

0.5 marks for stating banks have more than one role 0.5 for identifying the intermediary role 0.5 marks for each other distinct point with maximum 2 marks

Subject materials Module 4 page 28 and exercise 4.8