AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



EXAM QUESTION PACK

3.2.4.2 COMMERCIAL BANKS AND INVESTMENT BANKS

SCORE	PERCENTAGE
/6	%

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1. The table below contains a simple balance sheet for a bank.

Assets (£ billion)		Liabilities (£ billion)	
Cash	20	Customer Deposits	700
Cash held at Central Bank	70	Money owed to Central Bank	30
Securities held	130	Money owed to other banks	170
Loans	730	Shareholders Equity	100
Other assets	50		
Total assets 1000		**Total liabilities** 1000	

From the balance sheet it can be concluded that this bank is

A a threat to financial stability because it holds no capital. ⬭

B an investment bank because it holds non-interest bearing cash. ⬭

C earning large profits because most of its assets are loans. ⬭

D most likely to be a commercial bank because its main liabilities are customer deposits. ⬭

[1 mark]

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2. Three aims of commercial banks are liquidity, profitability and security. To achieve these aims, the banks hold a range of assets. Which one of the following shows a list of banks' assets ranging from the most liquid to the least liquid?

	Most liquid →			Least liquid	
A	Balances at the Bank of England	Treasury bills	Government bonds	Advances	⬭
B	Treasury bills	Balances at the Bank of England	Advances	Government bonds	⬭
C	Government bonds	Advances	Balances at the Bank of England	Treasury bills	⬭
D	Advances	Government bonds	Treasury bills	Balances at the Bank of England	⬭

[1 mark]

3. Which one of the following combinations is most likely to increase the risk of bank failures?

	Liquidity ratios	Capital ratios	
A	Increasing	Falling	⬭
B	Falling	Falling	⬭
C	Increasing	Increasing	⬭
D	Falling	Increasing	⬭

[1 mark]

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4. A bank makes a new loan to a customer. All other things being equal, which combination of events, **A**, **B**, **C** or **D**, shows what will happen?

	Bank's liabilities	Bank's assets	Money supply	
A	Increase	Increase	Increases	○
B	Increase	Fall	Increases	○
C	Fall	Increase	Falls	○
D	Fall	Fall	Falls	○

[1 mark]

5. The table below shows different combinations of changes in a commercial bank's liquidity and capital ratios. All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to improve the bank's financial stability?

	Liquidity ratio	Capital ratio	
A	Increase	Decrease	○
B	Increase	Increase	○
C	Decrease	Increase	○
D	Decrease	Decrease	○

[1 mark]

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6. The table below contains figures from the balance sheet of a commercial bank.

Item	**Value (£ bn)**
Cash	45
Share capital	100
Loans advanced	135
Fixed assets	115
Long-term liabilities	85
Investments	50
Reserves (retained profit)	30
Balances at the central bank	25
Deposits and other liabilities	185
Other liquid assets	30

What is the value of this bank's total liquid assets?

A £70 bn ⬭

B £100 bn ⬭

C £130 bn ⬭

D £175 bn ⬭

[1 mark]

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