

**Subject Area: Economics**  
**Level: CSEC**  
**Curriculum Topic: Financial Sector**  
**Section 5 Objective 6**

**Key teaching points:**  
**Describe the role of financial institutions and arrangements other than the central bank**

**Activity 1- Commercial Banks (45 minutes)**

a) Provide a definition for ‘Commercial Banks’.

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b) Name four functions of Commercial Banks.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

c) How do Commercial banks make money?

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d) Using a reserve ratio of 10%, show how banks create money with a deposit of \$2 000 (use 7 entries).

Deposit \$	Reserve Ratio 10%	Deposits available to create loans \$	Loan created/Money Spent

## Answer Key - Commercial Banks

- a) A commercial bank is a type of financial institution that provides services to organisations and the public.
- b) Functions
1. Credit creation
  2. Transmission of money
  3. Advisory services
  4. Financial products
- c) Commercial banks make money by providing loans and earning interest income from those loans. The types of loans a commercial bank can issue vary and may include mortgages, auto loans, business loans, and personal loans. A commercial bank may specialize in just one or a few types of loans.
- d)

Deposit \$	Reserve Ratio 10%	Deposits available to create loans \$	Loan created/Money Spent
2 000	$0.1 \times 2\ 000 = 200$	$2\ 000 - 200 = 1\ 800$	1 800
1 800	$0.1 \times 1\ 800 = 180$	$1\ 800 - 180 = 1\ 620$	1 620
1 620	$0.1 \times 1\ 620 = 162$	$1\ 620 - 162 = 1\ 458$	1 458
1 458	$0.1 \times 1\ 458 = 145.80$	$1\ 458 - 145.80 = 1\ 312.20$	1 312.20
1312.20	$0.1 \times 1\ 312.20 = 131.220$	$1\ 312.20 - 131.220 = 1180.98$	1 180.98
1180.98	$0.1 \times 1180.98 = 118.098$	$1180.98 - 118.098 = 1062.882$	1062.882
1062.882	$0.1 \times 1062.882 = 106.2882$	$1062.882 - 106.2882 = 956.5938$	956.5938