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The Meaning of Money

- **Money** is any asset that can easily be used to purchase goods and services.
- **Currency in circulation** is cash held by the public.
- **Checkable bank deposits** are bank accounts on which people can write checks.
- The **money supply** is the total value of these assets that are considered money.



Roles of Money

- A **medium of exchange** is an asset that individuals acquire for the purpose of trading rather than for their own consumption.
- A **store of value** is a means of holding purchasing power over time.
- A **unit of account** is a measure used to set prices and make economic calculations.

Types of Money

- **Commodity money** is a good used as a medium of exchange that has other uses.
- **A commodity-backed money** is a medium of exchange with no intrinsic value whose ultimate value is guaranteed by a promise that it can be converted into valuable goods.
- **Fiat money** is a medium of exchange with no intrinsic value; value is only derived as a means of payment.

Measuring the Money Supply

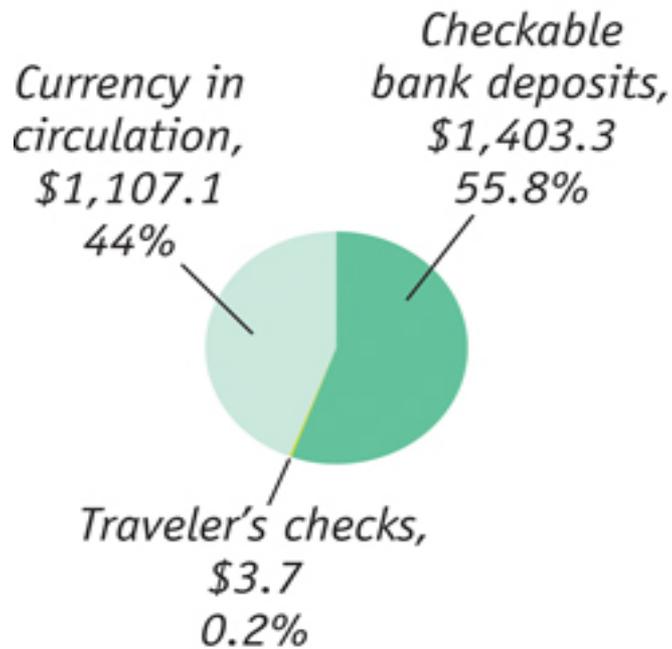
- A **monetary aggregate** is an overall measure of the money supply.
- **Near-moneys** are financial assets that can't be directly used as a medium of exchange but can readily be converted into cash or checkable bank deposits.

Measuring the Money Supply

- The Federal Reserve calculates the size of **monetary aggregates**, overall measures of the money supply. Two examples:
 - **M1**: contains only money in circulation, traveler's checks, and checkable bank deposits
 - **M2**: contains M1 and near moneys, financial assets that aren't directly usable as a medium of exchange but can be easily exchanged

Measuring the Money Supply

(a) M1 = \$2,514.1
(billions of dollars)



(b) M2 = \$10,536.3
(billions of dollars)

