

Money

Outline Notes

FUNCTIONS OF MONEY

Money is defined as any asset that is widely accepted as final payment for goods and services. All money must serve the following three functions.

1) Medium of Exchange

A)

B)

2) Store of Value

A)

B)

3) Unit of Account

A)

B)

TYPES OF MONEY

For thousands of years, commodities were used as money. This evolved into commodity-backed money, which later evolved into fiat money in the 1900s.

1) Commodity Money

A)

B)

2) Representative Money

A)

B)

3) Fiat Money

A)

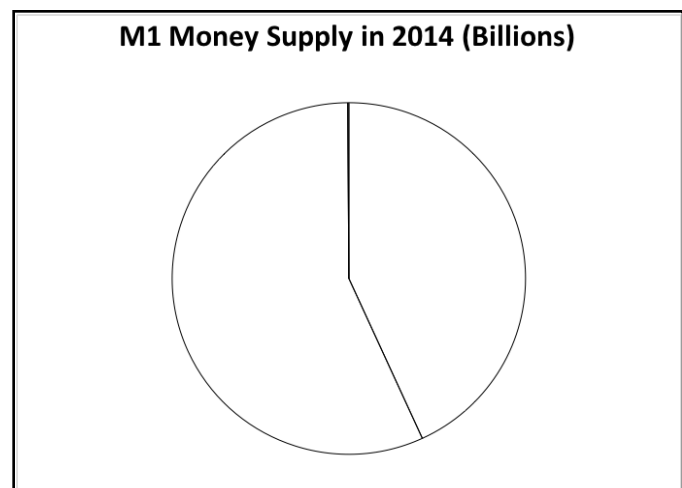
B)

CHARACTERISTICS OF MONEY

Throughout history, many different items have been used as money with varying success. The best money possesses the following characteristics.

1) Divisible**5) Durable****2) Portable****6) Stable****3) Acceptable****7) Uniform (or Fungible)****4) Scarce****M₁ MONEY SUPPLY**

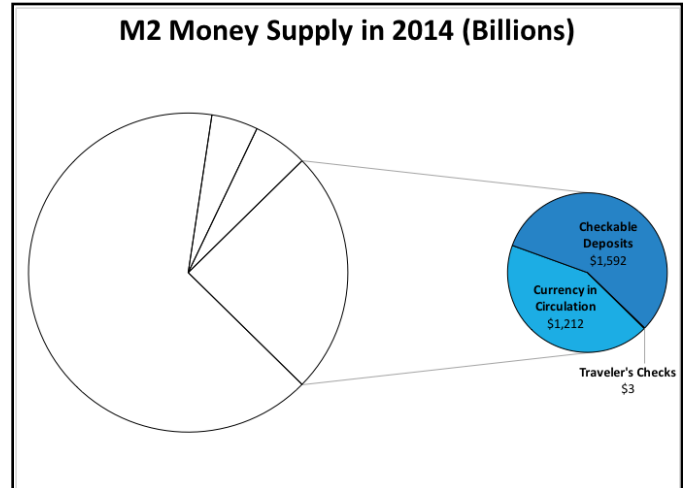
Measures of the money supply are based on **liquidity** (the ease of converting an asset into cash). M₁ is the most liquid measure, consisting of three items.

1) Currency in Circulation**2) Checkable Bank Deposits****3) Traveler's Checks**

M₂ AND M₃ MONEY SUPPLY

The M₂ and M₃ measurements add increasingly less liquid assets to the money supply. M₂ includes all M₁ assets and adds three “near-monies” to the list.

1) Savings Deposits



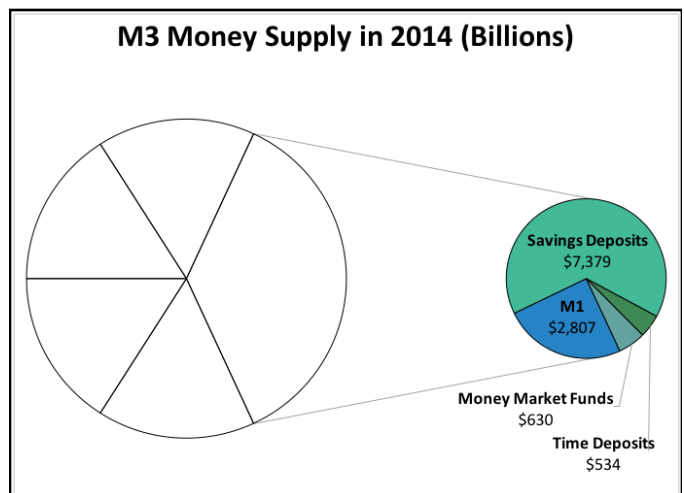
2) Time Deposits

3) Money Market Funds

M₃ Money Supply

A)

B)



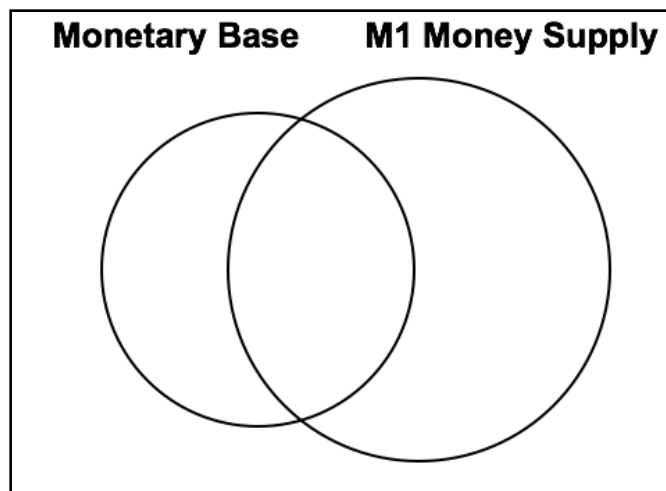
THE MONETARY BASE

M1, M2, and M3 measure the money supply. The monetary base is slightly different, measuring the quantity of money the monetary authorities control.

1) Currency in Circulation

A)

B)



2) Bank Reserves

A)

B)