Money Today

• Currency today consists of Federal Reserve Notes.
  – Fiat money
  – Legal Tender

Money Today

• Currency today consists of Federal Reserve Notes.
  – Fiat money
  – Legal Tender
  – Meets three tests
    • Medium of Exchange
    • Storer of Value
    • Unit of Account

Money Today

• Currency today consists of Federal Reserve Notes (and small change).
• Other Countries have similar systems
  – Bank of England (£)
  – Bank of Japan (¥)
  – European Central Bank (€)

Other Forms of Money

• Medium of Exchange
• Storer of Value
• Unit of Account
Other Forms of Money

- Medium of Exchange
- Storer of Value
- Unit of Account

Checking Accounts
- Demand deposits

Other Forms of Money

- Medium of Exchange
- Storer of Value
- Unit of Account

Checking Accounts
- Certificates of Deposit
- Treasury Bills
  - Mature in less than a year.

Other Forms of Money

- Medium of Exchange
- Storer of Value
- Unit of Account

Checking Accounts
- Certificates of Deposit
- Treasury Bills
- Money Market Accounts

These are not perfect substitutes. In some cases, things like checking accounts are better or worse than money.

The upshot is that there is ambiguity about just what constitutes money. Hence alternative definitions of money.
Two Definitions of Money

- \( M_1 \)
  - Currency in the hands of the public
  - Demand Deposits

- \( M_2 \)
  - \( M_1 \) plus
  - Time deposits < $100,000
  - Money market accounts

The Monetary Base

- \( M_b \)
  - Currency in the hands of the public
  - Currency held by banks
  - Bank deposits at the Federal Reserve System

<table>
<thead>
<tr>
<th>Definition</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monetary Base</td>
<td>$721.0</td>
</tr>
<tr>
<td>( M_1 )</td>
<td>$1,287.1</td>
</tr>
<tr>
<td>( M_2 )</td>
<td>$6,044.6</td>
</tr>
<tr>
<td>( M_b )</td>
<td>$8,806.9</td>
</tr>
</tbody>
</table>

\( M_1 \)

- Currency in the hands of the public
- Transaction-account balances
  - Demand deposits at commercial banks
  - NOW and ATS accounts
  - Credit union draft shares
  - Demand deposits at mutual savings banks
  - Traveler’s checks

You are responsible for
Basic definitions of \( M_b, M_1, M_2 \)

You are not responsible for
Precise definitions of \( M_1, M_2 \)
Actual numbers on \( M_1, M_2, M_b \)
\[ M_2 \]

- \( M_1 \) plus:
  - Savings accounts
  - Time deposits of less than $100,000
  - Money market mutual funds

\[ M_2 = M_1 + \text{savings accounts} + \text{time deposits of less than } \$100,000 + \text{money market mutual funds} \]

\[ M_2 \text{ Multiplier} = \frac{M_2}{M_b} = \frac{6,044.6}{721.1} = 8.382 \approx 8.4 \]

\[ M_1 \text{ Multiplier} = \frac{M_1}{M_b} = \frac{1,287.1}{721.1} = 1.785 \approx 1.8 \]

You are responsible for the notion of a multiplier, not the exact numbers.

\[ M_1 \text{ Multiplier, 1959-2003} \]

\[ M_2 \text{ Multiplier, 1959-2003} \]