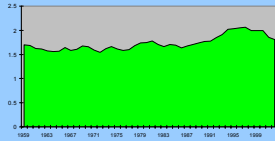


Money Today



Money Today

- Currency today consists of Federal Reserve Notes.

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
 - Not 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

Other Forms of Money

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

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

Other Forms of Money

These are not perfect

The upshot is that there is ambiguity about just what constitutes money. Hence alternative definitions.

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

Two Definitions of Money

- M_1
 - Currency in the hands of the public
 - Demand Deposits

Two Definitions of Money

- M_1
 - Currency in the hands of the public
 - Demand Deposits
- M_2
 - M_1 plus
 - Time deposits < \$100,000 and
 - 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

Definition	Amount
Monetary Base	\$721.0
M_1	\$1,287.1
M_2	\$6,044.6
M_3	\$8,806.9

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_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

M₂

- M₁ plus:
 - Savings accounts
 - Time deposits of less than \$100,000
 - Money market mutual funds

Definition	Amount
Monetary Base	\$721.0
M ₁	\$1,287.1

$$M_1 \text{ Multiplier} = \frac{M_1}{M_b} = \frac{1287.1}{721.1} = 1.785 \cong 1.8$$

$$M_2 \text{ Multiplier} = \frac{M_2}{M_b} = \frac{6044.6}{721.1} = 8.382 \cong 8.4$$

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

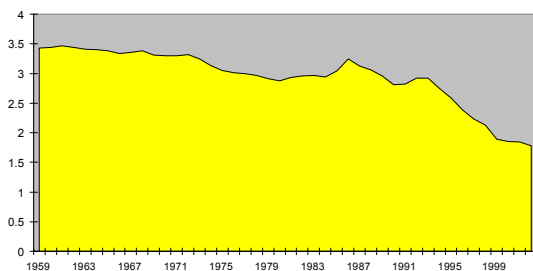
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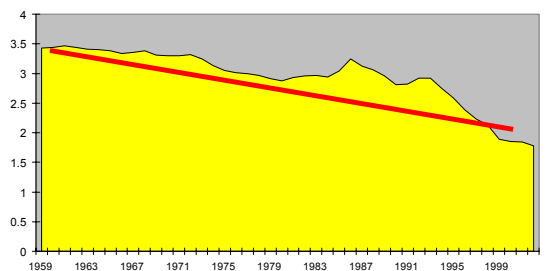
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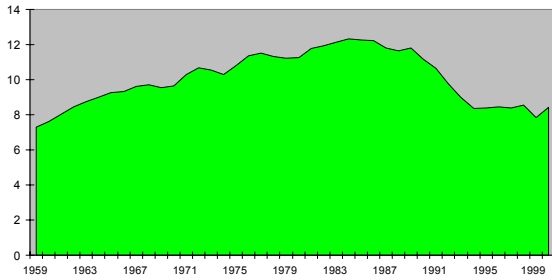
M₁ Multiplier, 1959-2003



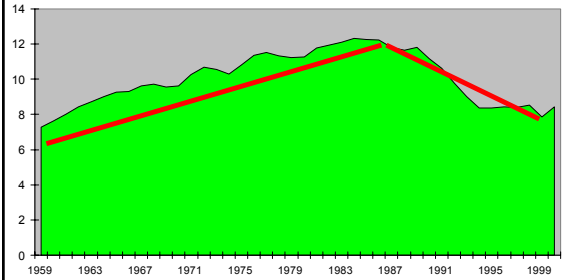
M₁ Multiplier, 1959-2003



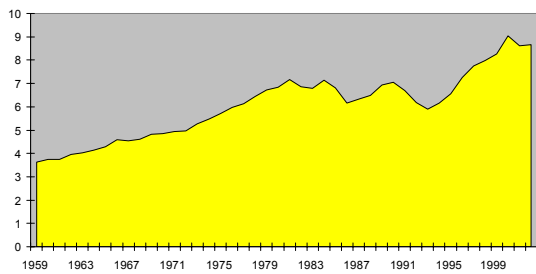
M₂ Multiplier, 1959-2003



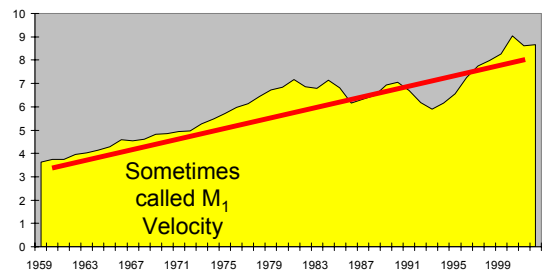
M₂ Multiplier, 1959-2003



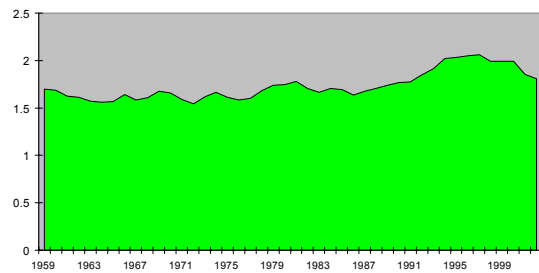
GDP/M₁ Ratio, 1959-2002



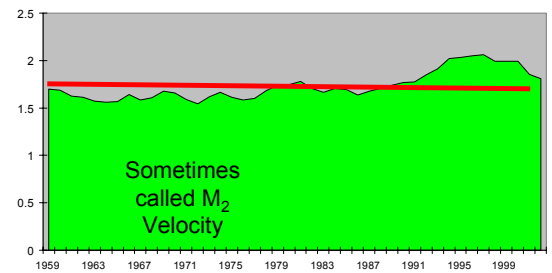
GDP/M₁ Ratio, 1959-2002



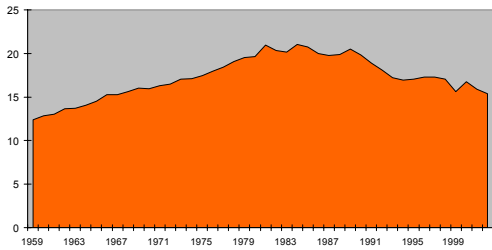
GDP/M₂ Ratio, 1959-2002



GDP/M₂ Ratio, 1959-2002



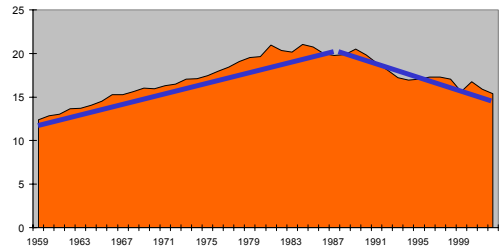
GDP/MB Ratio, 1959-2002



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GDP/MB Ratio, 1959-2002



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End

Data are from
Statistical Appendix of
Economic Report of the
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