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

Currency in circulation, $1,107.1
Checkable bank deposits, $1,403.3
Traveler’s checks, $3.7

Money market funds, $622.3
Time deposits, $593.5

Savings deposits, $6,806.3