Our Money Supply

- Money consist of coins, paper money, demand (or checking) deposits, and checklike deposits (commonly called NOW – or negotiable order of withdrawal – accounts) held by the nonbank public
  - Coins and paper money together are considered currency
  - Six of every ten dollars in our money supply are demand deposits and other checkable deposits
    - Virtually all the rest is currency
  - Checks are not money but checking deposits are

Federal Reserve Statistical Release, April 5, 2001
Our Money Supply: M1

Currency
+ Demand deposits
+ Other checkable deposits
+ Traveler’s checks

M1 (traditionally our basic money supply)

M1 = $1,368.4 (billions of dollars), June 2005

The Federal Reserve uses three definitions of the money supply: M1, M2, and M3.

M1 is equally split between currency in circulation and checkable bank deposits.

Our Money Supply: M2

Currency
+ Demand deposits
+ Other checkable deposits
+ Traveler’s checks

M1
+ Savings deposits
+ Small-denomination time deposits (less than $100,000)
+ Money market mutual funds held by individuals

M2
The Federal Reserve uses three definitions of the money supply: M1, M2, and M3. M2 has a much broader definition: it includes M1, plus a range of other deposits and deposit-like assets, making it about three times as large.

Our Money Supply: M1, M2, M3

M1
- Currency
- Demand deposits
- Other checkable deposits
- Traveler’s checks

M2
- Savings deposits
- Small-denomination time deposits (less than $100,000)
- Money market mutual funds held by individuals
- Large denomination time deposits (more than $100,000)
- Money market mutual funds held by institutions
- Other less liquid assets

M3
- Currency
- Demand deposits
- Other checkable deposits
- Traveler’s checks
- Savings deposits
- Small-denomination time deposits
- Money market mutual funds held by individuals
- Large denomination time deposits
- Money market mutual funds held by institutions
- Other less liquid assets
Credit Cards

- Is the Credit Card in your wallet Money?
  - It is accepted everywhere (Medium of exchange)
  - You get a bill (Unit of Account)