

# Money

## FIN 204 Lecture 2.1.

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# Outline

- 1 What is Money?
- 2 Functions of Money
- 3 Measuring Money

# What is Money?

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**Wealth** is the *stock* of money but also other assets such as bonds, common stock, art, land, furniture, cars, and houses, taken together.

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## Definition: Income

**Income** is the *flow* of money, interest rate and maturity payments per unit of time.



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# What is liquidity?

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## Definition: Liquidity

**Liquidity** is the relative ease and speed with which an asset can be converted into a medium of exchange

Advantages and disadvantages of a higher liquidity:

### Advantages

- lower costs of transactions
- ...

### Disadvantages

- no interest
- inflation eats it up  
(hyperinflation in BG, 1997)

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Three main monetary aggregates:

- M1
- M2
- M3

What is **M1**?:

What is **M1**?: Currency and assets that can be used directly as a medium of exchange

**Table 1 Measures of the Monetary Aggregates**

	Value as of December 2002 (\$billions)
M1 = Currency	626.5
+ Traveler's checks	7.7
+ Demand deposits	290.7
+ Other checkable deposits	281.2
Total M1	1,206.1

# M2 and M3

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What is **M3**?: Currency and assets that are less liquid – can not be turned into cash with little cost

M2 = M1

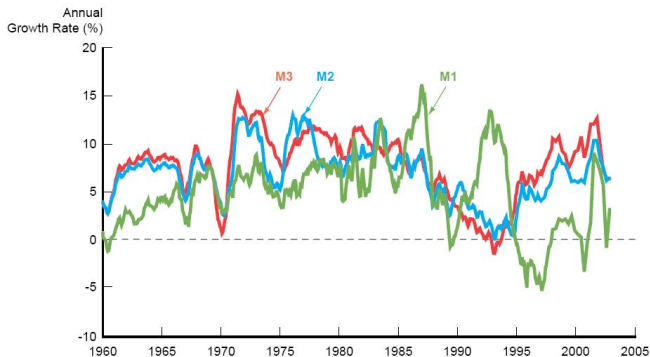
+ Small-denomination time deposits and repurchase agreements	1,332.3
+ Savings deposits and money market deposit accounts	2,340.4
+ Money market mutual fund shares (noninstitutional)	923.7
Total M2	5,802.5

M3 = M2

+ Large-denomination time deposits and repurchase agreements	1,105.2
+ Money market mutual fund shares (institutional)	767.7
+ Repurchase agreements	511.7
+ Eurodollars	341.1
Total M3	8,528.2

# The Growth of Money Over Time

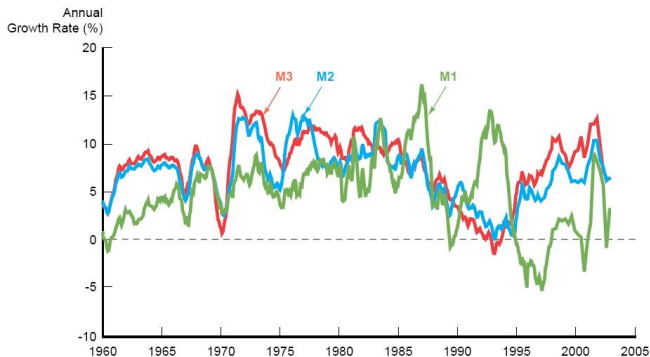
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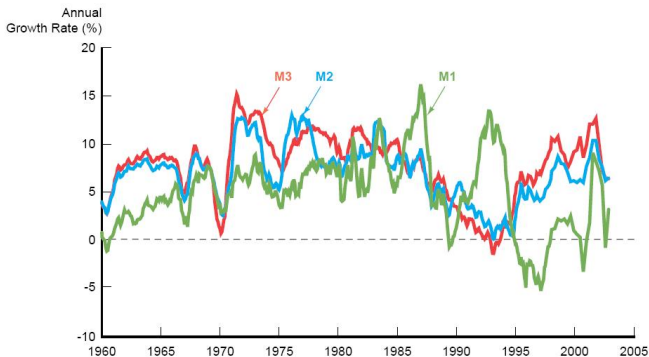
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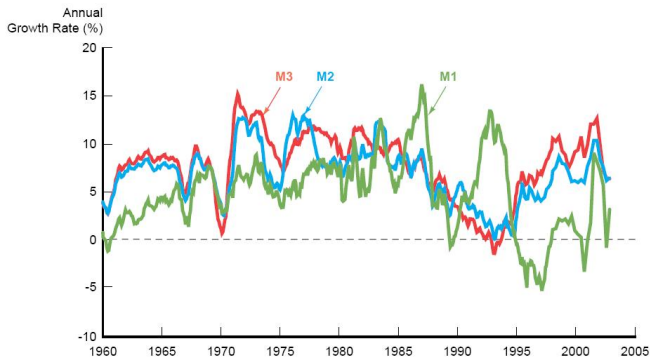
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# The Growth of Money Over Time

How do the monetary aggregates move over time?



- until the 1990's move pretty much together
- today, the story is more complex
- money (measurement) matters. Why?