- **M2**
  - Includes all of M1 and also near-monies
  - Savings deposits including Money Market Deposit Accounts (MMDA)
    - Bank takes and invests (restrictions on transactions)
  - Small denominated time deposits (CDs)
    - Agree not to touch money for a specific time period (less than $100,000)
  - Money Market Mutual Fund (MMMF)
    - Offered by savings account
    - Combines different people’s money to purchase stocks and bonds
    - Allows person to own thousands of small stock and bonds
    - Invested with money market securities (short term, safe liquid assets)

*Which of the following is not a part of U.S. money supply M1?*

**Time deposits (CDs)**

**Majority of Money is Electronic**

- M1 = 2 trillion
- M2 = 10 trillion

M1 is 20% of M2

- Cash is about $1 trillion out of $10 trillion
- U.S. population = 350 million on average each person should carry about $3000 cash

**What “Backs” money supply?**

- Government guarantees ability to keep value stable
- You believe everyone will be happy to accept it
- Gold standard → every dollar in circulation had to be backed by actual gold (that’s where paper value came from, money is no longer backed this way)
  - Commodity money = gold
- Stabilizing money’s purchasing power
  - Intelligent management of money supply – monetary policy
  - Appropriate fiscal policy
- Inflation has “self fulfilling prophecy” if people think the inflation will rise, then it does
- Bubble – when the price of something is raising increasingly fast