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Macro Economics

The Money Supply
M1, M2 and Supply & Demand

The money supply is usually referred to as a group of safe assets that households and businesses can use to make payments or to hold as short-term investments. Money supply is the entire stock of currency and other liquid instruments in a country's economy as of a particular time. The money supply can include cash, coins, and balances held in checking and savings accounts. Economists analyze the money supply and develop policies revolving around it through controlling interest rates and increasing or decreasing the amount of money flowing in the economy. Money supply data is collected, recorded and published periodically, typically by the country's government or central bank. Public and private sector analysis is performed because of the money supply's possible impacts on price level, inflation and the business cycle. In the US, the Federal Reserve policy is the most important deciding factor in the money supply.

There are multiple standard measures of the money supply. Two of them are called M1 and M2.

The measurer M1 is the sum of currency that is held by the public, i.e. all physical money (coins, etc..), and the transactions at institutions such as commercial banks, savings and loan associations, savings banks, and credit unions. These financial institutions obtain their funds mainly through these deposits made by the households. M1 measures the components of the money supply that are most liquid, i.e. the components that are the quickest to be converted to currency. It focuses on the role of money as an exchange medium. Whenever someone makes a purchase, for example, buying clothes,