

➤ **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
- US population = 300 million on average each person should carry about \$3000 cash

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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