

Chapter 8

4 functions of money

1. a medium of exchange
2. unit of account (you would denominate G+S in money)
3. Store of value
4. liquid asset

4 Features of money

1. Acceptable
2. Divisible
3. Portable
4. Predictable

Barter System

Double coincidence of wants.

DEFINITIONS OF MONEY:

M1 (narrow money, or base money):

Actual cash in circulation, and the amount that's in your p.c.a

Savings accounts are not included, because you can't write checks.

M2 Includes everything in M1 + business account

M2+ Includes everything in M2 + business savings + mutual funds + deposits at *near** banks

**does not refer to geographically close banks.*

CIBC, RBC, BMO, SCOTIA, TD, LAURENTIAN : REAL BANKS

ALL OTHERS ARE NEAR BANKS.

Legal Tender

FIAT (the bill is legal tender)

Commodity money. (the Money itself has value... eg. a gold coin)

BANK OF CANADA

4 functions:

- Controls the money supply
- Lender of last resort
- Conducts monetary policy (gov. is in charge of fiscal)
- Agent and advisor to the government

Dollarization: the act of a country adopting the U.S. dollar as their currency.

LIABILITY: SOMETHING THAT YOU OWE OF VALUE. (LIABILITY)

ASSEST: SOMETHING THAT YOU OWN OF VALUE. (LOANS)

$$\text{DEP} = \text{RES} + \text{LOANS}$$

$$R = rr.D$$

rr: reserve ratio (will be a fraction) Greater than or equal to 0 and less than or equal to 1

currency drain: what you hold in you're pocket

Currency = cd D Greater than or equal to zero and less than or equal to 1

$$M1 = C + D = cd D + D \text{ or } (1+cd)D$$

M1: Money supply **Ms** = **mm** (*Money Multiplier*) x **MB** (*Monetary Base Reserves + Currency*)

$$\text{MB: } R + C = (rr + cd) D$$

Therefore:

$$\frac{(1+cd)}{(rr+cd)} = \frac{Ms}{MB} = mm$$

$$(rr+cd) \quad MB$$

$$Ms0 = mm \times MB0$$

$$mm = \frac{\Delta Ms0}{\Delta MB0}$$

Money multiplier is always grater than or equal to 1 (if the mint prints 1\$ the money has to go up by at least 1\$ then plus plus plus due to lending)

To make the mm bigger:

- the rr has to go towards zero.
- Make the currency drain smaller