

Three Uses of Money

1. Medium of Exchange
2. Unit of Account/Measurement of Value
3. Store of Value

Six Characteristics of Money

1. Durability
2. Portability
3. Divisibility
4. Uniformity
5. Limited Supply
6. Acceptability

The Dollar Bill:

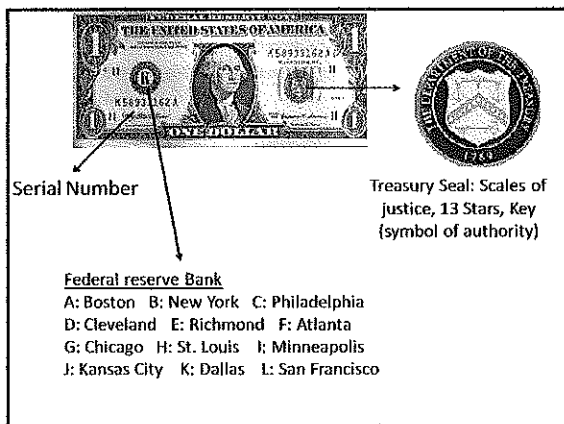
"In God We Trust" added in 1957

Average lifespan of a \$1 bill is 21 months

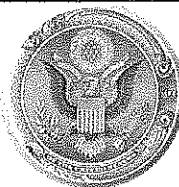
About 45 % of all new bills printed today are \$ 1 bills



cotton and linen blend
 red and blue minute silk fibers running through it
 A special blend of ink is used, the contents we will never know
 overprinted with symbols
 it is starched to make it water resistant



Great Seal



Bald Eagle: Uniquely American
E PLURIBUS UNUM: meaning "one nation from many people."
 13 Stars
 13 Arrows
 Olive Branch with 13 leaves
Shield represents Congress (13 bars)



Unfinished Pyramid: the nation isn't finished yet (13 steps on Pyramid)
All-seeing eye: reflects divinity
ANNUIT COEPTIS: means "God has favored our undertaking"
NOVUS ORDO SECLORUM is interpreted to mean "a new order for the world"
At the base of the pyramid is the Roman Numeral for 1776.

What IS Money? (Money Supply)

- M1: Assets that are *liquid* (ability to convert into cash)
 - Currency & Coin (about 55 % of M1)
 - Demand Deposits : Checking accounts
 - Traveler's Checks
- M2: All of M1 plus Near Money
 - All of M1
 - Near Money: Liquid, but not as much as M1
 - Savings Accounts
 - Money market mutual funds (Securities, like bonds)

Banking

- Fractional Reserve Banking
 - Banks must keep a 'fraction' of deposits on hand
- Bank Runs & Panics
 - If too many people come to take out money at once, banks go out of business & people lose money
 - Stock Market Crash of 1929 triggered a huge Panic
- Federal Deposit Insurance Corporation (FDIC) established in 1933

Federal Reserve Bank (The Fed)

- America's Central Bank (Bank that can lend to other banks in times of need)
- The Fed has 12 banks
- Supervised by the Federal Reserve Board
 - Current Fed Chairman is:
 - Ben Bernanke
 - Last Fed Chairman was
 - Alan Greenspan

Fed Powers

- Fed is 'quasi-public'
- Make loans to member banks
 - Sets interest rates for bank-to-bank loans
 - This interest rate sets the basic foundation of almost all other interest rates
- Print federal reserve notes (currency)
- Set Reserve Ratios
- Buy and Sell Bonds (Open Market Operations)

- Check Clearing
- Supervise lending practices
- Regulator of banks in general

Monetary Policy

Actions taken by the Fed to influence the level of real GDP and the rate of inflation in the country

- Most common Action:
 - FOMC (Federal Open Market Committee) OMO*
 - Buy & Sell Bonds (adjusts the money supply, thus inflation regulated: Quantity Theory of Inflation)
- 2nd Common Action:
 - Adjusts Federal Funds Rate & Discount Rate

Money Creation

1. Print money (not preferable method -- currency typically printed to replace damaged/ destroyed currency)
2. Use of reserve ratio & loans
 - Example on board – this can get complicated!!!
 - Money Multiplier gives a basic idea of how much money can grow ($1/\text{Required Reserve Ratio}$)
 - If RR is 10 % (.1) the multiplier is 10, thus a \$1,000 deposit eventually becomes \$10,000

3. Use of OMO (Open Market Operations) * Most Common Tool!
 - Buy Bonds
 - Fed /creates/ money computer entry to buy funds
 - Shows up as deposits in bond seller's bank accounts