

## Chapter 2

### Money and the Payments System

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## Money

### Money

- Money is an asset that is generally accepted as payment for goods and services or repayment of debt.
- Note that  
Wealth = value of assets – value of liabilities.

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## Characteristics of Money

1. A means of payment.
2. A unit of Account (standard of account)
3. A Store of Value

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## The Payments System

### Types of Money

- **Commodity Money** – Things that have intrinsic value
- **Fiat Money** – Value comes from government decree (or fiat) [legal tender]

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## The Payments System

### Checks

- Instructions to the bank to take funds from your account and transfer those funds to the person or firm whose name is written in the "Pay to the Order of" line.

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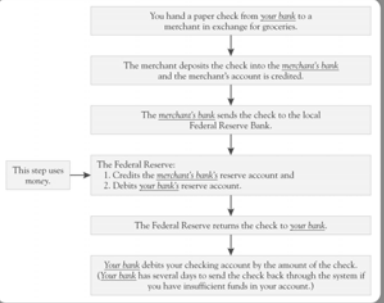
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## The Path of a Paper Check

Figure 2.1 The Path of a Paper Check



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## Other Forms of Payments

- Credit Cards (promise to pay)
- Debit Cards (like a check)
- Electronic Funds transfers

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## Liquidity

### **Liquidity**

- a measure of the ease an asset can be turned into a means of payment (Money).

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## Measuring Money

Different Definitions of money based upon degree of liquidity.

Federal Reserve System defines monetary aggregates.

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## Measures of Inflation

- **Fixed-weight Index** - CPI
- **Deflator** – GDP or Personal Consumption Expenditure Deflator
- **Chain-weight index** – Half way between fixed-weight and a deflator.

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## Chapter 2

End of Chapter

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