

# CHAPTER 3

## What is Money?

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## Meaning and Function of Money

### Economist's Meaning of Money

1. Anything that is generally accepted in payment for goods and services
2. Not the same as wealth or income

### Functions of Money

1. Medium of exchange
2. Unit of account
3. Store of value

### Evolution of Payments System

1. Precious metals like gold and silver
2. Paper currency (fiat money)
3. Checks
4. Electronic means of payment
5. Electronic money: Debit cards, Stored-value cards, Smart cards, E-cash

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## Federal Reserve's Monetary Aggregates

Table 1 Measures of the Monetary Aggregates

	Value as of December 2002 (\$billions)
M1 = Currency	626.5
+ Traveler's checks	7.7
+ Demand deposits	290.7
+ Other checkable deposits	281.2
Total M1	1,206.1
M2 = M1	
+ Small-denomination time deposits and repurchase agreements	1,332.3
+ Savings deposits and money market deposit accounts	2,340.4
+ Money market mutual fund shares (noninstitutional)	923.7
Total M2	5,802.5
M3 = M2	
+ Large-denomination time deposits and repurchase agreements	1,105.2
+ Money market mutual fund shares (institutional)	767.7
+ Repurchase agreements	511.7
+ Eurodollars	341.1
Total M3	8,528.2

Source: [www.federalreserve.gov/releases/h3.htm](http://www.federalreserve.gov/releases/h3.htm).  
Note: The *Traveler's checks* item includes only traveler's checks issued by non-banks, while traveler's checks issued by banks are included in the *Demand deposits* item, which also includes checkable deposits to businesses and which also do not pay interest.

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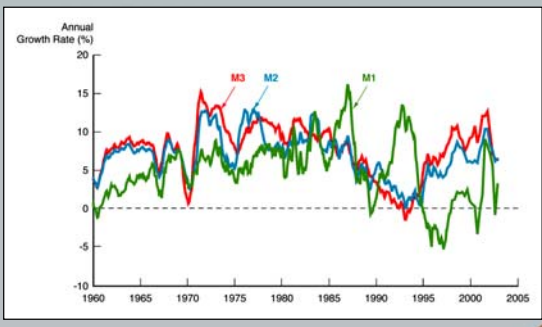
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## Growth Rates of Fed's Monetary Aggregates



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## How Reliable are the M2 Money Data: Data Revisions

**Table 2 Growth Rate of M2: Initial and Revised Series, 2002 (percent, compounded annual rate)**

Period	Initial Rate	Revised Rate	Difference (Revised Rate - Initial Rate)
January	2.2	5.4	3.2
February	6.8	8.7	1.9
March	-1.4	0.2	1.6
April	-4.0	-2.6	1.4
May	14.8	15.4	0.6
June	7.6	7.1	-0.5
July	13.6	11.0	-2.6
August	9.9	8.6	-1.3
September	5.1	5.7	0.6
October	10.9	8.3	-2.6
November	10.2	8.0	-2.2
December	2.8	2.8	0.0
Average	6.5	6.5	0.0

Source: Federal Reserve Statistical Release H-6: [www.federalreserve.gov/releases/h6](http://www.federalreserve.gov/releases/h6).

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