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WORKSHEET 13

SCHOOL: BA SANGAM COLLEGE

YEAR: 12

Name: _____

SUBJECT: ECONOMICS

Strand	3. Macroeconomics
Sub Strand	3.1 Money and Banking
Content Learning Outcome	3.1.1 Study the domestic market for money

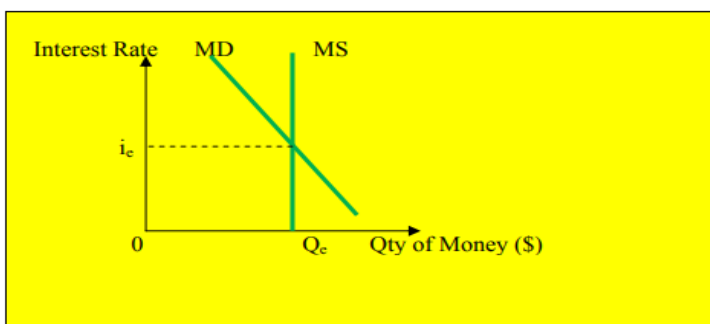
LESSON NOTES – MONEY AND BANKING

MONEY SUPPLY

Money supply is measured using different mediums.

1. **M0** is the sum of total currency in circulation.
2. **M1** = coins and notes, travellers cheques + transaction accounts operable by cheques. Narrow money, include most immediate forms of money available to the general public.
3. **M2** = M1 + other savings account. This includes EFTPOS, investments accounts and bonds. M2 is called Near Money. Near Money – assets that can be converted into cash easily.
4. **M3** = M2 + term deposit held at banks or other financial institutions this is called broad money which consists of large denominators, certificates of deposits.

Money Market Equilibrium



It is achieved where MD intersects with MS. The basic interest rate for the economy is determined by money market equilibrium.

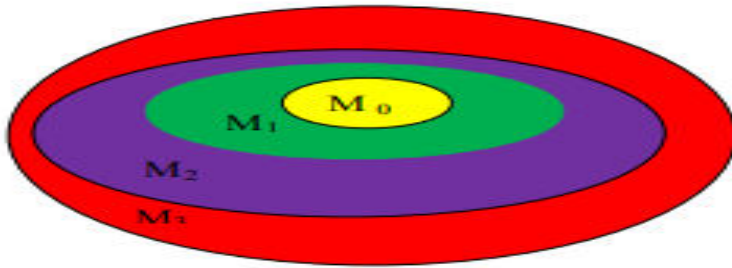
Note: The overall demand for money demand set by consumers and business while the MS is set and controlled by the Reserve Bank

ACTIVITY

1. Explain the Significance of the equilibrium rate of interest, how it is determined in the money market and what is likely to occur if the equilibrium interest rate is very low.

_____ (2 marks)

2. The diagram below shows how the definition of money supply M_1 , M_2 and M_3 , relate to each other. Study the diagram and answer the questions that follow.



- Which definition is also known as the narrow money supply and comprises notes and coins held by the public plus transactions account deposits kept in financial institutions? _____ **(1 mark)**
- Which definition is also known as the broad money supply where the majority of other funding is in the form of term deposits? _____ **(1 mark)**
- What happens to the liquidity of money as one moves outward from the centre of the diagram? _____ **(1 mark)**

Monetary aggregates	\$ millions
Accounts operable by EFTPOS	14 221
Accounts operable by EFTPOS and cheques	9 489
Notes and coins held by the public	2 465
Term deposits	46 355

3. Use the table below to calculate the values of M_1 , M_2 and M_3 .

M_1 _____

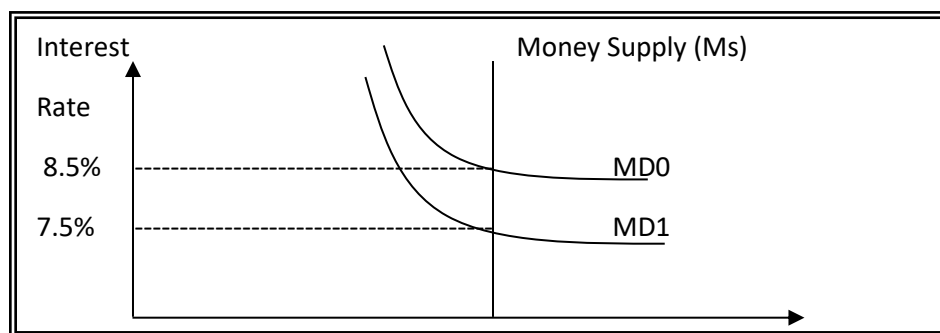
M_2 _____

M_3 _____

(3 marks)

4. Study the graph given below to answer the questions that follow

The Money Market



- Give a possible cause of the MD curve shifting downwards.

- How will the decline in the interest rate affect the demand for new home buyers?

(1 mark)

(1 mark)

THE END