

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 15

Strand	3	Macroeconomics
Sub Strand	3.1.3	Money Supply
Content Learning Outcome	Explore the factors that influence the domestic market for money.	

Greetings to all...

In the last lessons we discussed Government Budget now we will be looking at Money Supply.

Achievement Indicators: (Copy the sub-strand, content learning outcome and achievement in your note book)

- Identify spectrum or medium of money measure/ monetary aggregates. (components of money).
- Differentiate near and broad money
- Define money demand and identify factors determining money demand
- Define money supply and identify factors determining money supply
- Determine interest rate
- State and calculate quantity theory of money.

Lesson Notes (Copy the notes and examples in your note book)

Money supply is the amount of money circulation in the economy.

Medium of components of money aggregates	Explanation
M1 (Narrow Money)	Consists of notes & coins, travellers' Cheques + transaction accounts operable by cheques. (Most liquid form of money)
M2 (Near Money)	Is the sum of M1 + other savings accounts such as EFTPOS, investment accounts and bonds.
M3 (Broad Money)	Is the sum of M2 + term deposits/ fixed deposits held at banks or other financial institution. (Least liquid form of money)

Money Demand – is the desire of people to hold money.

3 motives of Money demand

3 Motives	Definition
Transaction Demand	Desire to hold money to buy things and meet day to day expenses.
Precautionary Demand	Desire to hold money for unpredictable events or for emergency purposes.
Speculator Demand	People may hold money to buy shares now and sell later at a higher price to get capital gain.

Please read through the notes as we will need the above information to compute different components of money supply.....

Stay safe.....