IN CLASS: Stocks, bonds and mutual fund notes (beginning of lecture) are in chapter 10+ notes.

A. Overview

1. Functions of money: 
   a. Medium of exchange (contrast w. barter)
   b. Unit of account (a standard)
   c. Store of value (wealth)

2. Types of money
   a. Commodity money: gold, silver, copper, cattle, rocks, shells
      1) Requirements: divisibility, uniformity, size, durability
      2) Examples: Silver and gold; Cigarettes in POW camps
   b. Fiat money (a fiduciary system: faith)
      1) Examples: Paper money, "silver certificates"
   c. History, debt notes
      1) Initially, payment for storing/safekeeping valuables
      2) Later, loans and the "fractional reserve" system

3. Measuring money: money is CURRENCY and DEPOSITS owned by individuals
   a. 2000 M1 ($1105B), the narrow definition of money: Checkable deposits ($579B), coins and paper ($518B), traveler's checks ($8B)
   b. 2000 M2 ($4683B), the broad definition of money: ...plus savings deposits, time deposits, money market mutual funds and other deposits
   c. "Near money": reasonably liquid assets... Credit cards? Plastic money...? No.

B. Money (actually, Deposit) Creation

1. T-accounts
   a. Assets: If paper is converted to cash, bank cash will increase!
   b. Liabilities plus net worth: Reverse the above.

2. Immigrant example: Japanese immigrant deposits 10 million yen ($100,000)
   a. Required reserves (with rrr=.2) = 0.2*$100,000.
   b. Excess reserves = (1-.2)*$100,000 = $80,000 (also = $100,000 - $20,000)
   c. The bank loans its excess reserves.
      1) The loan amount is deposited into a checking account.
      2) Check is written for full $80,000 and deposited by someone else into another bank. As the check goes through the Federal Reserve check clearing process, this bank will then have $64,000 in excess reserves which it can loan out....
      3) Money creation is original $100,000 plus $80,000 plus $64,000 plus....

3. Widow(er) example: $100,000 in mattress deposited into bank.
   1) The initial shock is not money creation (cash held by the public has decreased, while the demand deposit balance has increased)
   2) Money creation is only the maximum loan ($80,000) divided by rrr.

4. Summary: the $80,000 loan from Bank A is deposited in Bank B, which can then loan $64,000 which is deposited in Bank C, ......

5. Money creation has a "theoretical maximum": initial shock/rrr
   a. Banks must loan out their entire excess reserves.
   b. Each loan recipient must redeposit full amount (no leakage).