Money and Banking

First: Money

Money Definition

Money has two definitions M1 and M2 as following:

1. **M1**: It consists of two categories:
   - Currency (coins and paper money) in the hands of the public.
   - All checkable deposits (all deposits in commercial banks and “thrift” or savings institutions on which checks of any size can be drawn).
   
   Money M1 = currency + checkable deposits

2. **M2**: It consists of three categories:
   - Savings deposits, including money market deposit accounts (MMDA).
   - Small (less than $100,000) time deposits Funds from time deposits.
   - Money market mutual funds held by individuals (MMMF).
   
   Money M2 = M1 + savings deposits, including MMDAs + small (less than $100,000) time deposits + MMMFs held by individuals.

The Functions of Money

1. **Medium of exchange**: Money is usable for buying and selling goods and services. Money is a social invention with which resource suppliers and producers can be paid and that can be used to buy any of the full range of items available in the marketplace.

2. **Unit of account**: Society uses monetary units (dollars, pounds) as a measuring unit of a wide variety of goods, services, and resources. Just as
we measure distance in miles or kilometers, we gauge the value of goods in dollars.

3. **Store of value**: Money also serves as a store of value that enables people to transfer purchasing power from the present to the future. People normally do not spend all their incomes on the day they receive them. In order to buy things later, they store some of their wealth as money.

**Second: Banking**

**Definition of Bank**

A place where money could be saved safely and would be available when required. Banks are such places where people can deposit their savings with the assurance that they will be able to withdraw money from the deposits whenever required.

**Types of banks**

![Diagram of types of banks]

- Central Bank
- Development Banks
- Specialized Banks
- Commercial Banks
- Co-operative Banks
**Central bank:** This bank serves as bankers’ banks.

**Functions of Central bank:**

1. Issuing currency
2. Setting reserve requirements and holding reserves
3. Lending money to banks and thrifts
4. Providing for check collection
5. Acting as fiscal agent
6. Supervising banks
7. Controlling the money supply