

Chapters 12,13,14,15 economics flashcard



**ASSIGN
BUSTER**

Medium of exchange any item sellers generally accept and buyers generally use to pay for a good or service; money; a convenient means of exchanging goods and services without engaging in barter

Unit of account a standard unit in which prices can be stated and the value of goods and services can be compared; one of the three functions of money.

Store of value an asset set aside for future use; one of the three functions of money

M1 The most narrowly defined money supply, equal to currency in the hands of the public and the checkable deposits of commercial banks and thrift institutions.

Token money coins of regular issue whose face value is greater than their intrinsic value

Federal Reserve Notes Paper money issued by the Federal Reserve Banks

Checkable deposits any deposit in a commercial bank or thrift institution against which a check may be written. Commercial banks a firm that engages in the business of banking (accepts deposits, offers checking accounts, and makes loans). Thrift institutions a savings and loan association, mutual savings bank, or credit union.

Near-monies financial assets, the most important of which are noncheckable savings accounts, time deposits, and U.S. short-term securities and savings bonds, which are not a medium of exchange but can be readily converted into money.

M2 a more broadly defined money supply, equal to M1 plus noncheckable savings accounts (including money market deposit accounts), small time deposits (deposits of less than \$100,000), and individual money market mutual fund balances.

Savings accounts a deposit in a commercial bank or thrift institution on which interest payments are received; generally used for saving rather than daily transactions; a component of the M2 money supply.

Money market deposit account (MMDA) Bank- and thrift-provided interest-bearing accounts that contain a variety of short-term securities; such accounts have minimum

balance requirements and limits on the frequency of withdrawals. Time deposits an interest-earning deposit in a commercial bank or thrift institution that the depositor can withdraw without penalty after the end of a specified period. Money market mutual fund (MMMF) interest-bearing accounts offered by investment companies, which pool depositor's funds for the purchase of short-term securities. Depositors can write checks in minimum amounts or more against their accounts

MZMA definition of the money supply that includes monetary balances immediately available at zero cost to households and businesses for making transactions. Equals M2 minus small time deposits plus money market mutual fund balances owned by businesses.

Legal tender A legal designation of a nation's official currency (bills and coins). Payments of debts must be accepted in this monetary unit, but creditors can specify the form of pay (ex. cash only).

Federal Reserve System The US central bank, consisting of The Board of Governors of the Federal Reserve and the 12 Federal Reserve Banks, which controls the lending activity of the nation's banks and thrifts and thus the money supply; commonly referred to as "the Fed."

Board of Governors the seven-member group that supervises and controls the money and banking system of the United States; the board of Governors of the Federal Reserve system; the Federal Reserve board.

Federal Reserve Banks The 12 banks chartered by the U. S. government to control the money supply and perform other functions. (See central bank, quasi-public bank, and bankers' bank.)

Federal Open Market Committee (FOMC) The 12-member group that determines the purchase and sale policies of the Federal Reserve Banks in the market for U. S. government securities.

Financial services industry The broad category of firms that provide financial products and services to help households and

businesses earn interest, receive dividends, obtain capital gains, insure against losses, and plan for retirement. Includes commercial banks, thrifts, insurance companies, mutual fund companies, pension funds, investment banks and securities firms. Electronic payments Purchases made by transferring funds electronically, ex: Fedwire transfers, automated clearing-house transactions, Paypal, and payments made through store-valued cards.

Monetary multiplier The multiple of its excess reserves by which the banking system can expand checkable deposits and thus the money supply by making new loans (or buying securities); equal to 1 divided by the reserve requirement.

Balance sheet a statement of the assets, liabilities, and net worth of a firm or individual at some given time

Vault cash the currency a bank has in its vault and cash drawers

Fractional reserve banking system A reserve requirement that is less than 100% of the checkable-deposit liabilities of a commercial bank or thrift institution

Reserve ratio the fraction of deposits that the federal reserve determines banks must keep on reserve

Excess reserves The amount by which a bank's or thrift's actual reserves exceed its required reserves; actual reserves minus required reserves.

Required reserves the funds that banks and thrifts must deposit with the federal reserve bank (or hold as vault cash) to meet the legal reserve requirement; a fixed percentage of the bank's or thrift's checkable deposits

Federal funds rate The interest rate banks and other depository institutions charge one another on overnight loans made out of their excess reserves

Actual reserves the funds that a bank has on deposit at the federal reserve bank of its district (plus its vault cash)