

Money Supply, Interest Rates and Financial Institutions HWK 5-1 Definitions

Select the term which corresponds to the statements which follow

A	credit creation	H	credit
B	money supply	I	money
C	open market operations	J	currency
D	money multiplier	K	term deposits
E	The Federal Reserve	L	current deposits
F	bank bills	M	near money
G	financial intermediaries	N	credit cards

- 1 Term Deposits Funds lodged with financial institutions for fixed periods usually at prescribed interest rates.
- 2 financial intermediaries Institutions which facilitate the flow of savings which are channeled to investors for productive activity.
- 3 credit creation The unique ability of banks through their lending activities to increase their level of deposits and the money supply.
- 4 credit cards Short term loans to consumers which allow payments for commodities or services to be deferred, albeit at penalty interest rates.
- 5 money A commodity generally accepted as a medium of exchange removing the need for the double coincidence of wants.
- 6 money multiplier Shows the total change in bank deposits resulting from an initial change in deposits.
- 7 near money Highly liquid assets which can be easily converted into currency or current deposits.
- 8 credit Loans and advances by all financial intermediaries plus bank bills outstanding.
- 9 current deposits Funds held with financial institutions in check or current accounts, usually available on call.
- 10 open-market operations The buying and selling of government securities by the Federal Reserve from and to the money market
- 11 currency Notes and coins in the hands of the public.
- 12 money supply The stock of currency and deposits held by the private sector with various financial institutions.
- 13 bank bills Loans between individuals and business, repayment of which is guaranteed by banks.
- 14 The Federal Reserve A government institution established to administer monetary policy and supervise the financial system.

Concepts Review

Check the following for the missing terms and concepts

authorized dealers, Federal Reserve , buy, cash on hand, cost and availability, credit creation, credit, deposits exchange, financial intermediaries, flow, from, government securities, higher, interest rates and money supply, increase, increased, lower, required reserves, sell, stock

- 1 Organizations which channel an economy's savings to investment opportunities are known as financial intermediaries. The distinguishing feature of a financial institution is that it deals in credit or debt.

- 2 Open market operations are defined as the buying and selling of government securities. Market operations are transactions between the Federal Reserve and money market. If the Federal Reserve wanted to increase the domestic money supply, it would buy government securities from the money market. If the Federal Reserve wanted to reduce the domestic money supply it would sell government securities to the money market.

- 3 Money is defined as anything acceptable as a mean of exchange. The main difference between money and income is that money is a stock concept and income is a flow concept.

- 4 Monetary policy is defined as action by the central bank to influence the cost and availability of money in the US

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 - (a) The credit creation or money multiplier shows the total change in bank deposits resulting from an initial change in deposits. When a person deposits cash in a bank and receives a current deposit in return the money supply has increased.
 - (b) The excess reserves of a bank equal its cash on hand less its required reserves.
 - (c) The higher the cash reserve deposits the lower is the money multiplier.
 - (d) When a bank lends out its excess reserves, the supply of money will generally increase.
 - (e) The process of the banking system lending out excess reserves which eventually return in the form of new deposits is called credit creation.