E101 - 5.1 - Money and Banking

Medium of Exchange - Something that is accepted as payments for goods and services.
Store of Wealth - The function of money that allows people to hold and accumulate wealth.
Unit of Account - The function of money that allows us to easily determine the relative value of goods.

Money needs to be :
-Acceptable
-Durable
-Portable
-Divisible
-Standardized
-Easily recognized
-Not easily copied
-Controlled by a central authority.

Commodity Money - A type of money that can also usefully function as a commodity.
Bill of Exchange - Paper that was a buyers promise to pay in the future for goods received.
Fiat Money - Anything that is declared as money by government order.
Leverage - The use of an asset such as bank reserves to increase the amount of loans and therefore the potential return on the asset.

Fractional Reserve System - A banking system in which banks keep only a small fraction of their total deposits on reserve in the form of cash.

M1 - Currency in circulation plus demand deposits.
Demand Deposits - Money deposited in a checking account that is available on demand.
Notice Deposit - Money deposited in a savings account that is available only after notice is given.
M2 - M1 plus all notice and personal term deposits.
M3 - M2 plus nonpersonal term deposits known as certificates of deposit.

$$M1 = Currency + Demand\ Deposits$$

$$M2 = M1 + Notice\ Deposits\ and\ Personal\ Term\ Deposits$$

$$M3 = M2 + Certificates\ of\ Deposits$$

A new bank deposit of currency changes the composition of the money supply but does not change its total.

Near banks - Financial institutions such as credit unions or trust companies that share many of the functions of commercial banks but are not defined as banks under the bank act (they are also known as nonbank financial intermediaries).

E101 - 5.2 - Money and Banking

Spread - The difference between the rate of interest a bank charges borrowers and the rate it pays to savers.
Target Reserve Ratio - The portion of deposits that a bank wants to hold in cash.

Assets - The part of a company's balance sheet that represents what it owns and what it is owed to it.
Liabilities - The part of a company's balance sheet that represents what it owes.
Net worth - The total assets less total liabilities of a company (also called equity).

Each times a bank issues a loan, it creates money.

$$Target\ Reserves = Target\ Reserve\ Ratio \times Demand\ Deposits$$

$$Excess\ Reserves = Actual\ Reserves - Taget\ Reserves$$

Excess Reserves - Reserves in excess of what the bank wants to hold as it targets reserves.
Money Multiplier - The increase in total deposits that occur in the whole banking system as a result of a new deposit in a single bank.

$$Money\ Multiplier = \frac{\Delta\ Deposits}{\Delta\ Reserves} \qquad Money\ Multiplier = \frac{1}{Target\ Reserve\ Ratio}$$

A single bank has to tread carefully and limit its loans to the amount of its excess reserves.

Bank rate - The rate of interest that the Bank of Canada charges a commercial bank for a loan.