

Answer on Question #38056- Economics - Macroeconomics

Assignment

If individuals remove funds from their checkable deposits and transfer them to their money market accounts, will M1 fall and M2 rise? Explain.

Solution

Monetary Aggregates – are broad categories measuring the total value of the money supply within an economy. Usually monetary aggregates and their measured contents are known as:

M0 – Physical cash and coin

M1 – All of M0 plus demand deposits, traveler's checks. Also it is the sum of currency (and coins) issued by government and held by the nonbank public and checkable deposits issued by banking institutions.

M2 – All of M1 plus savings deposits, money market shares

So, if individuals remove funds from their checkable deposits and transfer them to their money market accounts it will lead to decrease in M1 but M2 will remain constant.