What is Money Supply?

Worksheet

Money supply is the total amount of money in an economy, measured in tiers: M1 (cash + checking accounts), M2 (M1 + savings), and M3 (M2 + money market assets).

Questions

1. Which of these is included in M1?

A) Cash and checking deposits
B) Savings accounts
C) Money market securities
D) Government bonds

2. M2 includes…

A) Only cash
B) M1 + savings deposits
C) M1 + stocks
D) M1 + real estate

3. Why is M1 more liquid than M2?

A) It's larger
B) Cash and checks are immediately accessible
C) It includes stocks
D) Savings accounts are gone

4. If a central bank increases M2, it usually means…

A) Less money in the economy
B) More savings and checking deposits
C) Stock prices fall
D) Interest rates rise

5. If M1 is 2.2 trillion and savings accounts add19.3 trillion, what is M2?

6. Physical cash in circulation is 800 billion, checking deposits1.4 trillion. What is M1 (approx)?

7. If M2 is 21.5 trillion and money market assets are8.3 trillion, what is M3?

8. Define: What is M1?

9. Define: What is M2?

10. Define: What is M3?

Answer Key

1. A) Cash and checking deposits — M1 = physical cash + checking deposits only. Savings require more time to access.
2. B) M1 + savings deposits — M2 = M1 + savings/money market accounts—the next broader tier.
3. B) Cash and checks are immediately accessible — Liquid = can be spent immediately. Cash and checks are ready; savings take time to withdraw.
4. B) More savings and checking deposits — Increasing M2 means injecting more money into savings and checking—stimulating the economy.
5. M2 = M1 + savings deposits M2 = 2.2 + 19.3 = 21.5 trillion
6. M1 = cash + checking deposits M1 = 0.8 + 1.4 = 2.2 trillion
7. M3 = M2 + money market securities M3 = 21.5 + 8.3 = 29.8 trillion
8. Physical cash and demand deposits (checking accounts)—the most liquid form of money.
9. M1 plus savings deposits and money market accounts—less liquid than M1.
10. M2 plus longer-term time deposits and money market securities.