How the Federal Reserve tracks U.S. money supply

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Economic Snapshot is a weekly feature provided by the UW Extension

The economy
Week Three: Money Supply

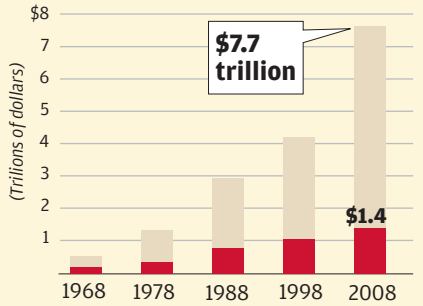
As credit tightened recently, concerns over the money supply increased.

What is the money supply and why does it matter? Simply, the money supply is the total amount of money available in the economy. It is important because too little money in the economy means less is available to businesses and consumers. Less money usually means less spending and, as a result, the economy slows. Too much money in the system can have the opposite effect by stimulating the economy and fueling inflation.

The Federal Reserve uses two benchmarks to measure the money supply. The first, M1 measures the most liquid or easily spendable money. M1 consists of all the currency, coins, travelers' checks and demand deposits (accounts against which checks can be written). M2 equals M1 plus savings accounts, time deposits less than $100,000, and funds in retail money market mutual funds. This graph provides an historical perspective of the money supply in the United States.

Measuring the U.S. money supply

U.S. Federal Reserve money supply measurement by decade:



Liquid money - Currency, coins, travelers' checks and demand deposits

All money - Liquid money plus savings accounts, time deposits less than $100,000 and funds in retail money market mutual funds

NOTE: August figures of each year

State Journal

SOURCE: xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx