

Money and money market

WHAT IS MONEY?



6.2 Money and money market

FUNCTIONS OF MONEY

☐ **Medium of exchange, or means of payment :**

What sellers generally accept and buyers generally use to pay for goods and services.

☐ **Store of value:**

An asset that can be used to transport purchasing power from one time period to another.

☐ **Unit of account:**

A standard unit that provides a consistent way of quoting prices.

6.2 Money and money market

TYPES OF MONEY

- ❑ **Commodity monies:**

Items used as money that also have intrinsic value in some other use.

- ❑ **Paper money:**

Claims on gold.

- ❑ **Fiat or token money:**

Items designated as money that are intrinsically worthless.

6.3 Money supply

THREE WAYS OF MEASURING MONEY SUPPLY: M1, M2, M3

M1: Transactions money

Money that can be directly used for transactions.

M1 $\equiv$

6.3 Money supply

THREE WAYS OF MEASURING MONEY SUPPLY

M2: Broad money

M2 $\equiv$

Near monies:

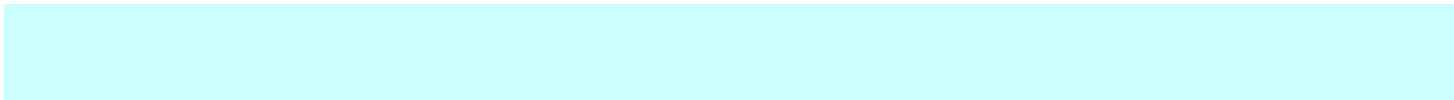
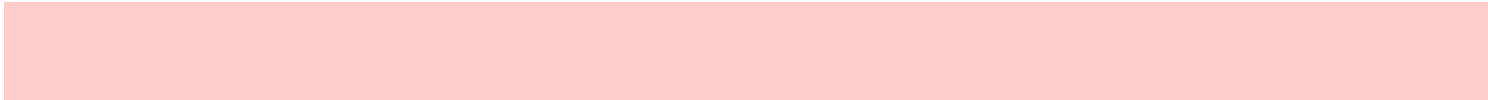
6.3 Money supply

THREE WAYS OF MEASURING MONEY SUPPLY

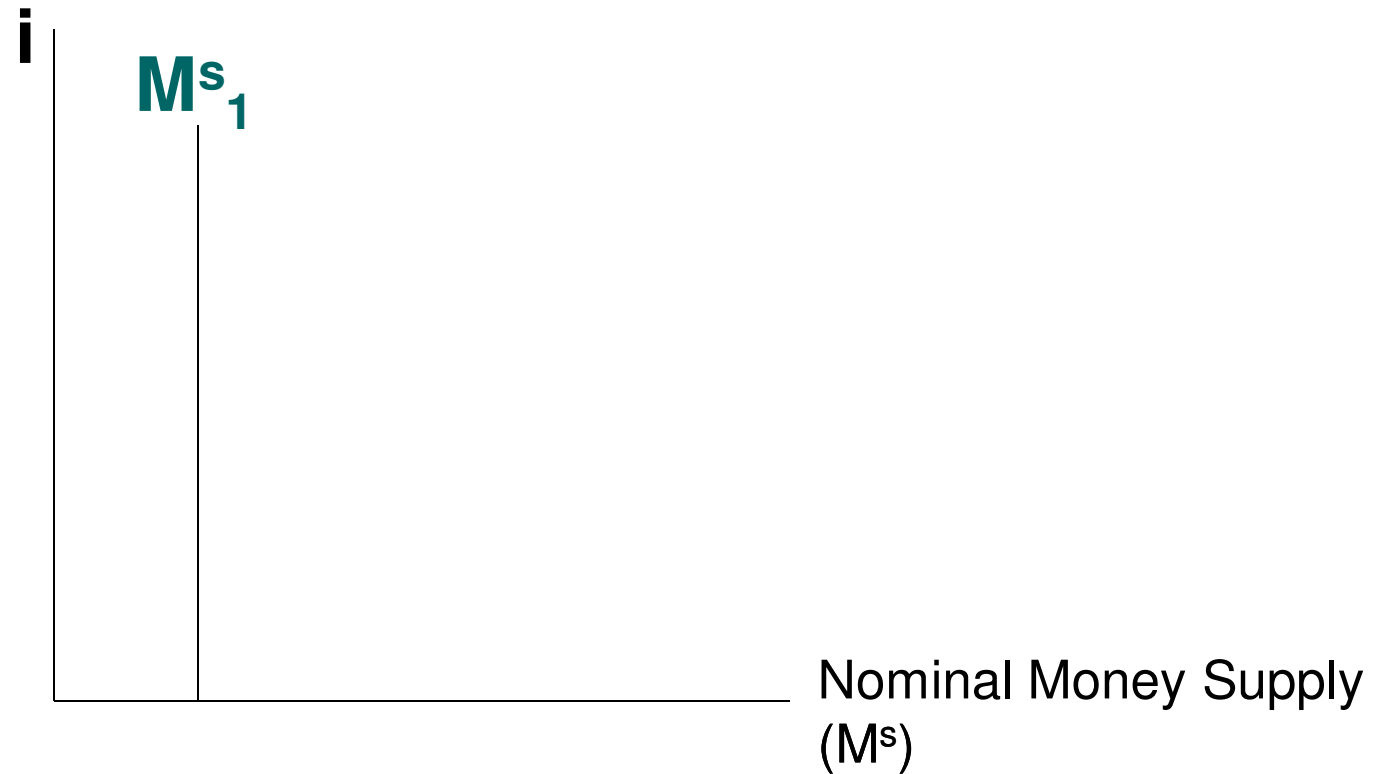
M3:

Should credit cards be counted as money?

Money supply



Money Supply



6.4 Central Bank Roles

Central bank: the institution that regulate and supervise financial institutions in the country in order to achieve those macroeconomic goals

Central Bank

- ❑ The world's first central bank
Riks Bank of Sweden (1656)
- ❑ The most famous central bank:
Bank of England (1694)
- ❑ Federal Reserve System (1913)

Bank of Thailand (Dec 10th, 1942)

Bank of Thailand Governors

- ☐ H.H.Prince Vivadhanajaya (1)
- ☐ Puay Eungpakorn (10)
- ☐ M.R. Pridiyathorn devakula (20)
- ☐ Tarisa Watanagase (21)
- ☐ Dr. Prasarn Trairatvorakul (22)

Functions of Bank of Thailand

1. Printing banknotes and coins

International reserves

- Gold
- Foreign currency
- International reserve at least 60% of amount of money issued

Functions of Bank of Thailand

2. Act as a bank for government

- Accept deposits from government and government's organization
- Lending money for government
- Government's representative to manage public debt
- Government's representative to control exchange rate

Functions of Bank of Thailand

3. Act as a bank for commercial bank

- Accept deposits (legal reserve and excess reserve)
- Lending money to commercial bank (at bank rate)
- Clearing interbank payments

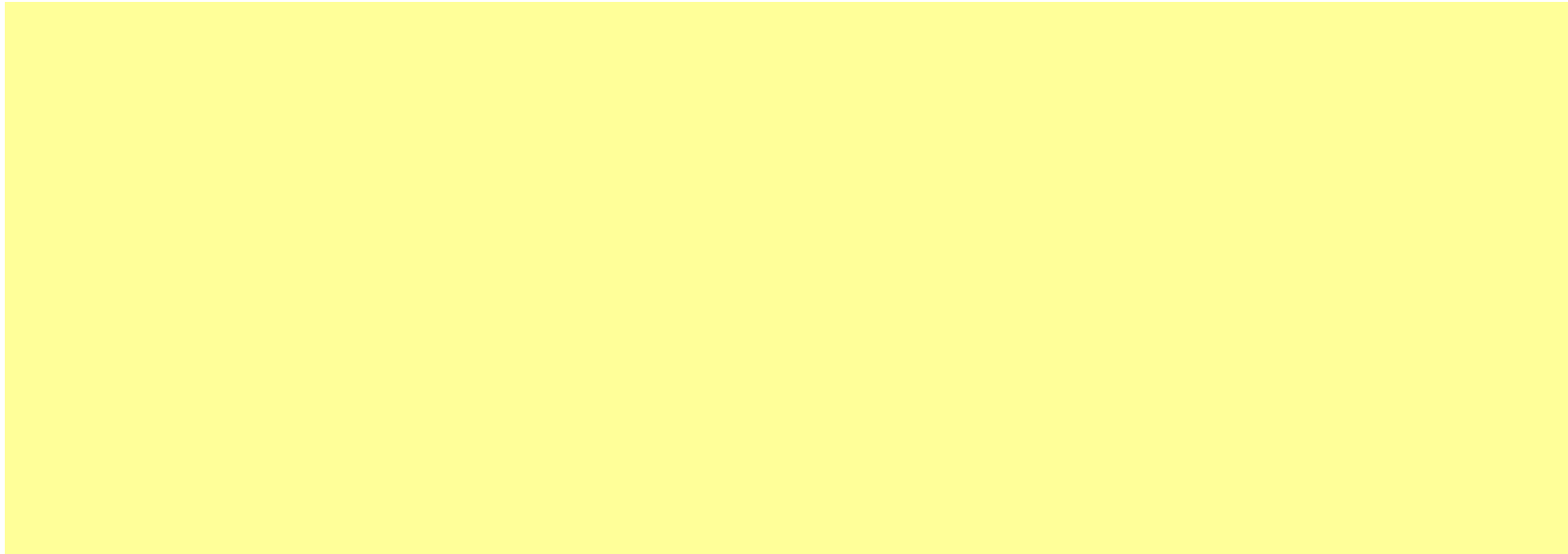
Functions of Bank of Thailand

4. Regulate and Monitor commercial banks and other financial institutions

5. Monitor foreign currency exchange

6. Regulate and monitor flows of money into and out of the country

Monetary Policy



Types of monetary policy

1. Contractionary Monetary Policy

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2. Expansionary Monetary Policy

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Monetary Policy tools

1. Open Market Operations: OMO

- **Bubble economy (Inflationary economy)**
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- **Economic Recession (Deflationary economy)**
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Monetary Policy tools

2. Bank Rate

- Inflationary economy →

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- Deflationary economy →

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→

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Monetary Policy tools

3. Rediscount Rate

4. Legal Reserve Requirement ratio: rr

Rediscount Rate

: the interest rate that central bank collect upfront when commercial bank buy promissory note from private sector (at discount rate) and then resale promissory note to central bank

: For example Bank A buy promissory note from Mr. Frank (discount rate = 10%). If value of promissory note is 1 million Bahts, Mr. Frank will receive money from bank A _____ Bahts

If central bank buys this promissory note from Bank A (rediscount rate = 5%). Bank A will receive money from central bank _____ Baht.

Therefore, Bank A can make profits _____ Bahts

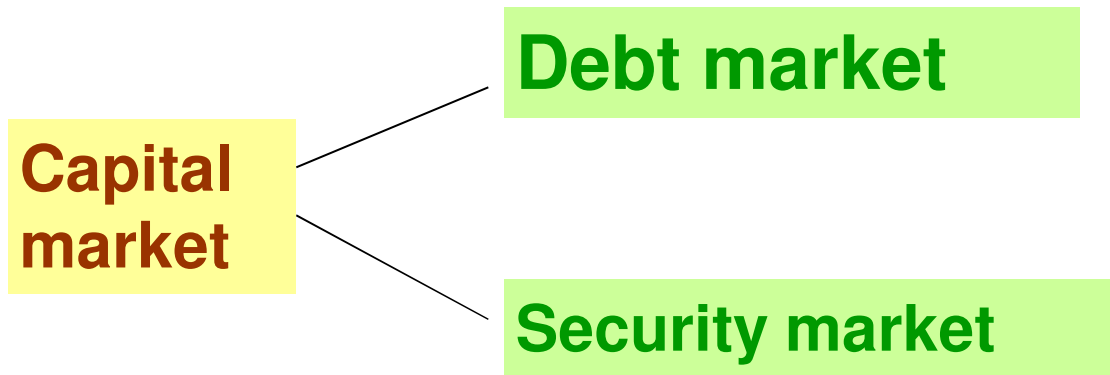
Financial Market

➤ **Definition:** a market that facilitates the transfer of money from the economic unit with saving to economic units needed money for investment

➤ Types of Financial Market

Money market: short-term borrowing and lending (promissory note) with original maturities of one year or shorter time frames, such as money deposit in the bank, corporate bond, treasury bills (treasury notes) with maturities less than 1 year

Capital Market: long-term borrowing and lending (promissory note) with original maturities of one year or longer time frames, such as money deposit in the bank, corporate bond, treasury bond with maturities more than 1 year



- **Primary Market**

deals with the issuance of new securities

- **Secondary Market**

the financial market where previously issued securities and financial instruments such as stock and bonds are bought and sold