

What is Money?
ECON 4673
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Problems

1. In prison, cigarettes are sometimes used among inmates as a means of payment. How is it possible for cigarettes to solve the “double coincidence of wants” problem, even if a prisoner does not smoke?
2. Was money a better store of value in the United States in the 1950s than in the 1970s? Why or why not? In which period would you have been more willing to hold money?
3. For each of the following assets, indicate which of the monetary aggregates (M1, M2 and MZM) includes them: a) Currency; b) Retail money market mutual funds; c) Institutional money market mutual funds; d) Small-denomination time deposits; and e) Demand deposits.
4. Assume that you are interested in earning some return on the idle balances you usually keep in your checking account and decide to buy some money market mutual funds shares by writing a check. Comment on the effect of your action (with everything else the same) on M1, M2, and MZM.