

Table 13-1 Components of the M1 and M2 Measures of the Money Supply, October 2010 (\$ billions)

	Component of M1	Component of M2
Currency	903.9	
Transactions accounts		
Demand deposits	494.7	
Other checkable deposits	385.9	
Traveler's checks	4.7	
Equals M1	1,789.2	1,789.2
Savings deposits, including money market deposit accounts		5,255.1
Small-denomination time deposits		978.8
Money market mutual funds (retail only)		729.3
Equals M2		8,752.4

Source: Federal Reserve Board *Money Stock Measures*, www.federalreserve.gov/releases/h6/Current/

The M2 Definition of Money

The major components of M2 are:

1. **M1.** Everything included in M1 is also included in M2.
2. **Savings deposits** include passbook savings accounts, as well as saving accounts that allow deposits and withdrawals to be made by mail or on the Internet. Included in this category are *money market deposit accounts* that allow the writing of a limited number of checks per month, pay a rate of interest comparable to money market mutual funds (category 4 that follows), and because they are deposits, qualify for deposit insurance.
3. **Time deposits** with balances under \$100,000 are included in M2. They are more commonly called "certificates of deposit" and they have maturities ranging from six months to several years.
4. **Money market mutual funds** allow an unlimited number of checks of a certain minimum value to be written. Unlike mutual funds that invest in stocks and bonds and experience daily changes in value, money market mutual funds maintain a fixed principal amount.

Which financial market instruments are excluded from the M2 definition of the money supply? Comparing Table 5-5 on p. 128 with Table 13-1, we can see that M2 mainly consists of liabilities of depository institutions and investment intermediaries (money market mutual funds but not stock or bond mutual funds). None of the capital market instruments are included in M2.

Money Supply Definitions and the Instability of Money Demand

Because M2 omits several financial assets, for example stock and bond mutual funds, the demand for M2 may shift unpredictably when these omitted assets become more attractive relative to the assets that are included in M2. The demand for M1 is even more likely to be unstable, because some of the most liquid assets included in M1 are very similar to some of the assets excluded from M1. For example, money market deposit accounts, that are excluded from M1,