

4.1 Financial Assets

Asset	Anything of value that can be converted into cash	Cash, real estate, jewelry, car, bonds, stocks
Liquidity	Ease (speed and value) with which an asset can be converted into cash	
The Barter System	Goods and services are traded directly w/o exchange of money	Problems: 1) Each trader must have something the other wants 2) Some goods cannot be split (Ex: 1 goat = 5 chickens, ___ goat = 1 chicken)
Securities	A form of ownership can be easily traded on a secondary market. INTANGIBLE investment!	Stocks, bonds, mutual funds
Bond	An interest-bearing asset often issued by businesses or the govt. Bond holders have NO OWNERSHIP of the company. Bonds are sometimes referred to as securities.	
Why do bonds have an inverse relationship w int rates?	Most bonds pay a fixed int rate, so as int rates ↓ bonds become more desirable.	
Stock	A security that gives you ownership in a company	
How can stockowners earn a profit?	1) Dividends portions of a corporation's profits are paid out to stockholders. <i>The higher the corporate profit, the higher the dividend.</i> 2) Capital gain Earned when a stockholder sells stock for more than they paid for it.	



By **chur7**
cheatography.com/chur7/

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4.1 Financial Assets (cont)

Treasury Securities (Open Market Operations) **1) Treasury Bills (T-Bills)** Mature in 1 yr or less. Sold @ < face (par) value & can't be redeemed before maturity **2) Treasury Notes (T-Notes)** Mature in 2-10 yrs. You collect semi-annual int ("coupon payments") and then cash it in for face value at maturity **3) Treasury Bonds (T-Bonds)** Mature in 20-30 yrs **4) Treasury Inflation-Protected Securities (TIPS)** Par value adjusted to CPI semi-manually. 5, 10, 30 yr maturity.

4.3 Definition, Measurement, and Functions of Money

Money Anything generally accepted as payment for goods and services. **1) Commodity Money:** Something that performs the function of money but also had alt uses **2) Commodity-Backed (Representative) Money:** Paper money backed by gold, silver. Guaranteed by a promise **3) Fiat Money:** Something that serves as money but has no other important uses

1) Commodity Money: Gold, silver, cigarettes, ramen
3) Fiat Money: Paper money, coins

Functions of Money **1) Medium of Exchange** An asset individuals use to trade for goods and services rather than consumption **2) Unit of Account:** Unit of measure of the "value" of things. Used to set prices and make economic calculations. It is *divisible* (\$1 = 4 quarters), *fungible* (\$1 = \$1), & *countable* **3) Store of Value:** Money holds purchasing PP for the future, and it doesn't die or spoil. Money = DURABLE.

- **1) Medium of Exchange** Retired couple spends \$9000 on a month-long vacation **2) Unit of Account** Name-brand good is 2x as \$ as a similar, generic good. **3) Store of Value:** HS senior deposits his part-time salary into a savings account. A bank invests \$10 million into a stock and bond portfolio.

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4.3 Definition, Measurement, and Functions of Money (cont)

<p>Measurements of MS (Money Aggregates)</p>	<p>1) M1 Coins, paper currency, checkable deposits (including checking and debit accounts) 2) M2 Near money accounts below \$100,000 including savings deposits, MM accounts, certificates of deposits. ALSO mutual funds, bonds, securities. 3) M3 Near money accounts \$100,000+ including M2</p>	<p>- 1) M1 Function: Medium of Exchange, Liquidity: High 2) M2 Function: Store of Value, Liquidity: Medium 3) M3 Function: Unit of Account, Liquidity: Low</p>
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What backs our money supply? NO GOLD STANDARD - \$ is an IOU from the govt for all debts (public/private)

Debit Card  - Money A way to access checkable deposits (money)

Credit Card  - Money Short-term loan w a high int rate if not paid off. Liability, not asset. - You buy a shirt w a CC → Visa pays the store → You pay VISA the price of the shirt + interest and fees (maybe)

4.2 Nominal and Real Interest Rates

Nominal Int Rate	Int rate that hasn't been adjusted for inflation	NIR = RIR + inflation
Real Int Rate	Int rate that has been adjusted for inflation	RIR = NIR - inflation

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