University of OEB

Department of Economic Sciences

Second Year Licence Economics

Teacher: Miss M. Khames

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Lecture 03: Supply and Demand

Money plays a crucial role in any economy. It is used as a **medium of exchange**, allowing people to buy goods and services. Without money, trade would depend on barter, where people exchange one good for another. However, barter has many problems, such as the difficulty of finding someone who wants what you have and has what you need.

The **money supply** refers to the total amount of money available in an economy at a given time. It includes **cash (coins and banknotes)** and **bank deposits** that people can use for transactions. Central banks, like the U.S. Federal Reserve or the Bank of Algeria, control the money supply through different tools, such as **interest rates, open market operations, and reserve requirements**.

An increase in the money supply can lead to **inflation**, which means prices go up because more money is available. On the other hand, if the money supply is too low, economic growth may slow down, leading to **deflation** or even a recession. That is why central banks carefully manage the money supply to keep the economy stable.

In short, money makes trade easier, and its supply affects prices, growth, and overall economic health. Understanding money supply helps economists and policymakers make better decisions for a country's economy.

Reading Comprehension Questions

A. True or False

1. ___ Money is mainly used as a medium of exchange.
2. ___ Barter is a more efficient system than using money.
3. ___ The money supply includes both cash and bank deposits.
4. ___ Central banks have no role in controlling the money supply.
5. ___ Inflation occurs when there is too much money in the economy.

B. Short Answer Questions

1. What is the main problem with the barter system?
2. What does the term **money supply** mean?
3. Name two tools central banks use to control the money supply.
4. What happens if the money supply increases too much?
5. Why is it important to manage the money supply in an economy?

Vocabulary Section

Activity one: Match each economic term with the correct definition.

Money supply, **Inflation**, **Deflation**, **Barter**, **Central bank**, **Interest rate**

a) A situation where the general price level of goods and services decreases.

b) A system of exchange where goods and services are traded without money.

c) The percentage charged by banks on loans or paid on savings.

d) The total amount of money available in an economy at a given time.

e) A general increase in prices, reducing the purchasing power of money.

f) The institution that controls the money supply and monetary policy in a country.

Activity Two: Fill in the gaps with the appropriate term from the previous list

1. The __________ controls the money supply and sets interest rates.
2. When prices rise due to too much money in the economy, it is called __________.
3. In the past, people used __________ to exchange goods before money was invented.
4. If the money supply is too low, the economy may experience __________, leading to falling prices.
5. A high __________ makes it expensive to borrow money, while a low one encourages borrowing.
6. The government adjusts the __________ to ensure economic stability.