

Unit three : Economics and Monetary Aggregates.

1_ introduction:

In economics to study the performance of an economy Economists use aggregates.

Aggregates are large totals that combine many individual elements of the economy into a single measure. They help us understand overall trends rather than focusing on small details .

There are two important type of aggregates:

1_ Economic Aggregates: broad measure of Economic activity.

2_ Monetary Aggregates: broad measure of the money supply in an economy.

2_ Monetary Aggregates:

Monetary Aggregates measure the money supply the total amount of money circulating in an economy central banks (like the European Central bank) monitor these aggregates to guide Monetary policy .

3_ Main types of monetary aggregates:

_ **M0** : the most liquid form of money including coins and bank notes in circulation + reserves held by banks .

_ **M1**: (narrow money) : M0 + demand deposits (money in checking / current accounts , used for every day transaction.

_ **M2**: (intermediate money) : M1 + saving accounts + short term deposits.

_ **M3**: (broad money) : M2 + large time deposits, institutional money , market funds , and other larger liquid assets .

4_ importance of Monetary aggregates:

_Guide central banks in Monetary policy (interest rates _
money supply)

_ they show inflation risks , growth trends unemployment levels
and financial stability.