

**BEC1116**

**Principles of Economics** ⓘ

◆ **Money and Inflation**



# The Meaning of Money

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Money refers to something that is generally accepted as a medium of exchange for goods and services and is used for the settlement of debts.



# The Functions of Money

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- **The static function of money refers to the role of money in facilitating the smooth operation of the economic system.**
  - **The functions of money can be classified as follows:**
    - **Money serves as a medium of exchange.**
    - **Money serves as a unit of account.**
    - **Money serves as a store of value.**
  - **Function as a Medium of Exchange**
    - **A medium of exchange is something that buyers give to sellers when they wish to obtain goods and services.**
    - **Any item that can effectively perform the role of facilitating exchange can serve as a medium of exchange.**
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# Examples of Money Used in Ancient Times

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# Examples of Money Used in Ancient Times



# Functions of Money

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- **Unit of Account**

A unit of account is a unit used to state prices and record debts.

- **Store of Value**

Money serves as a store of value. Saving money represents a transfer of purchasing power from the present to the future.

# Value of Money

## External Value

The price of one currency when expressed in terms of another currency (i.e., the exchange rate)

## Internal Value

The **purchasing power** of money—the amount of goods and services that each unit of money can buy.

# Evolution of Payment Systems

The evolution of payment systems is a transformation in the means of settling value.

1. Barter (exchange of goods for goods)

2. Use of money as a medium of payment

3. Use of bank deposits

4. Use of bank deposits combined with credit

5. Use of plastic money and electronic fund transfer methods

# Liquidity

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Liquidity refers to the ability to convert things or assets into cash, such as selling goods and then receiving cash in return. Whether liquidity is high or low depends on how quickly a particular good or asset can be converted into money within a given period of time.



# Functions / Forms of Money

- **Commodity Money** Money in the form of goods or commodities, such as livestock, animal hides, tea leaves, and tobacco.
- **Full-Bodied Coins** Coins whose value is equal to their intrinsic value, such as silver and gold.
- **Token Money** Coins whose value is not equal to their intrinsic value, such as a metal coin with a face value of 1 baht but with metal content worth less than 1 baht.
- **Paper Money**
- **Demand Deposits**

# Definition of Money Supply

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## (M1, M2 and M3)

- ❑ Money Supply refers to the quantity of money existing in the economic system.
- ❑ Monetary Policy refers to the management of the money supply by policymakers of the central bank.

# Definition of Money Supply (M1, M2 and M3)

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**M1** – Narrowly defined money refers to money circulating in the hands of the public. It consists of banknotes and coins held by the public, as well as demand deposits, which are deposits that the public keeps in the banking system, such as commercial banks.

- **Coins and banknotes (Currency held outside banks – includes coins and paper money in the hands of the public)**
- **Demand deposits (Checking accounts – balances can be withdrawn by using checks)**
- **Traveler's checks (Issued in specific denominations; these are treated as cash)**

**M1 = Banknotes + coins + demand deposits + traveler's checks**

# M1



ที่มา: Debutth. (2562, 10 กุมภาพันธ์). สัมภาษณ์ ทำมาจากอะไร. สืบค้นจาก <https://www.rulerpaw.com/%E0%B8%98%E0%B8%99%E0%B8%9A%E0%B8%B1%E0%B8%95%E0%B8%A3%E0%B8%97%E0%B8%B3%E0%B8%88%E0%B8%B2%E0%B8%81%E0%B8%AD%E0%B8%B0%E0%B9%84%E0%B8%A3/>



# Definition of Money Supply (M1, M2 and M3)

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**M2** – A broader definition of money, which includes the money supply M1 as well as time deposits and savings deposits.

- **Time deposits (or fixed deposits)** – deposits that earn interest when held to maturity; if withdrawn before maturity, penalties may apply, such as no interest or reduced interest.
- **Savings deposits** – interest-bearing deposits.

$$\mathbf{M2} = \mathbf{M1} + \text{time deposits} + \text{savings deposits}$$

# M2

$$M2 = M1 + \dots\dots\dots$$



Fixed deposit



Savings deposit

# Definition of Money Supply (M1, M2 and M3)

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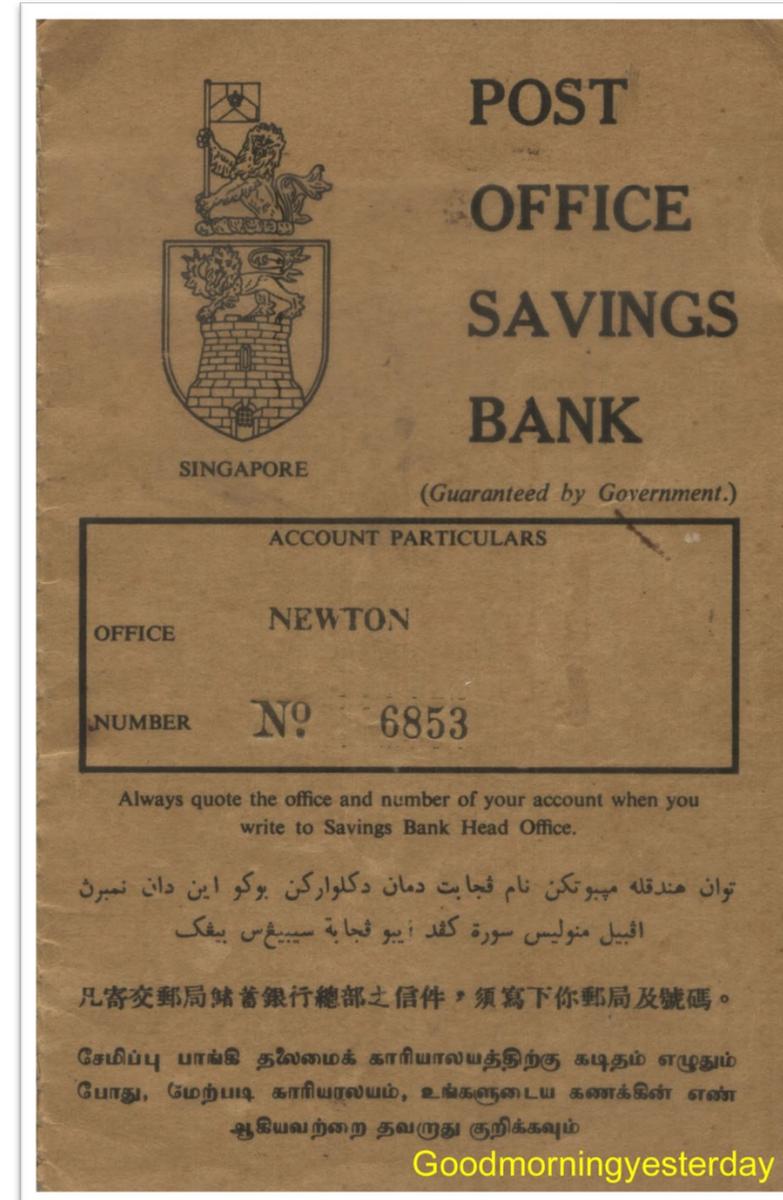
Definition of Money Supply (M1, M2 and M3)

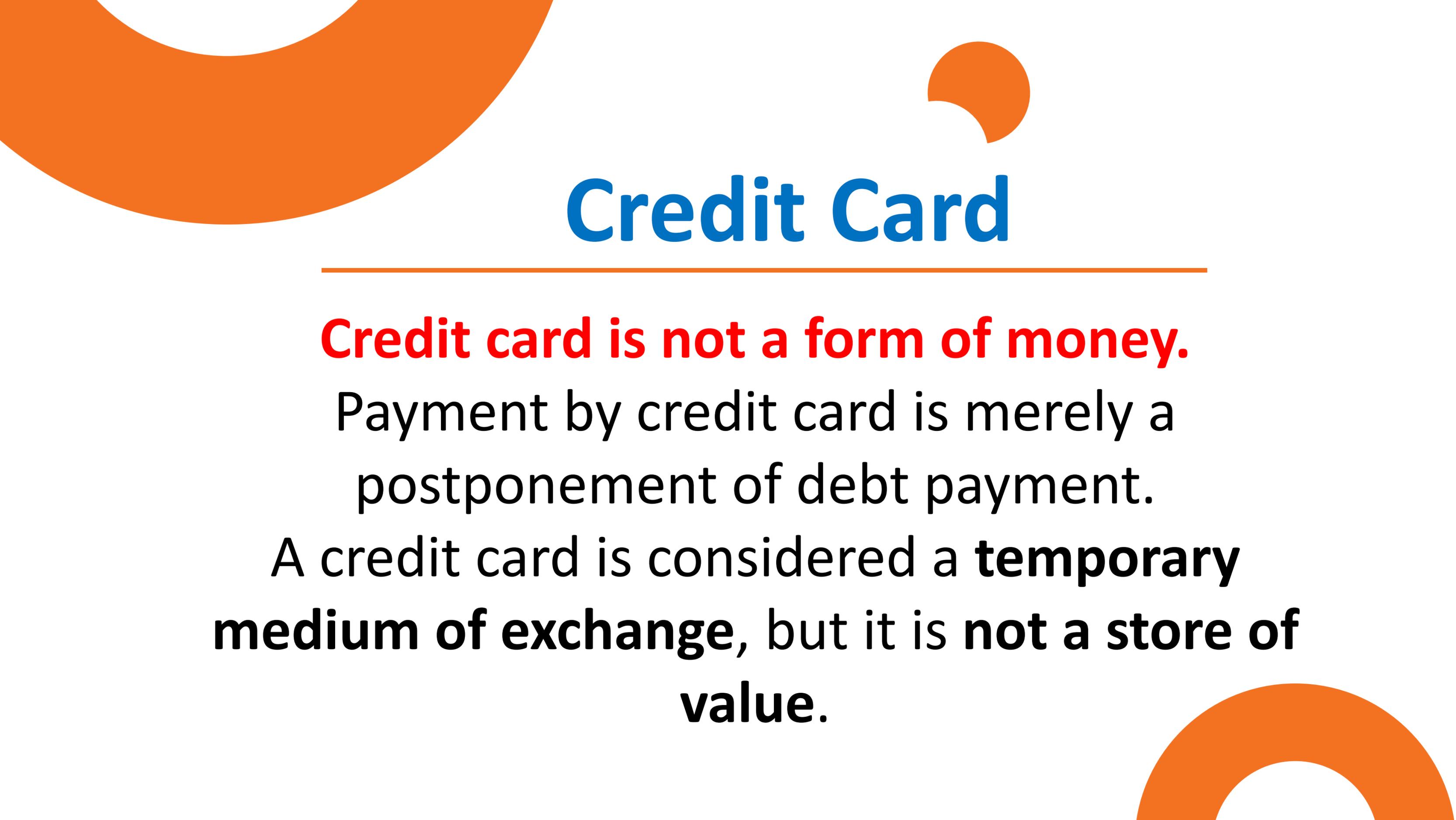
**M3 = M2 + deposits with non-bank financial institutions, such as deposits with finance companies and the post office.**

**M3 = M2 + deposits with non-bank financial institutions  
(e.g., deposits of finance companies and post office savings)**

# M3

$$M3 = M2 + \dots\dots\dots$$





# Credit Card

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**Credit card is not a form of money.**

Payment by credit card is merely a postponement of debt payment.

A credit card is considered a **temporary medium of exchange**, but it is **not a store of value**.

# Money and the Thai Economy

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- ❑ Currency refers to banknotes and coins held by the public.
- ❑ Demand deposits refer to deposits in accounts from which  
withdrawals can be made using checks.

# Demand for Money

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**Demand for Money ( $M^d$ )** refers to the total amount of money that the public wishes to hold at any given point in time. There are theories that explain the demand for money as follows

1. Demand for money for general transactions

Households – hold money to purchase goods and services

Businesses – hold money to pay for production expenses

2. Demand for money for precautionary purposes

3. Demand for money for profit (speculative motive)

Money remaining after general and precautionary expenditures can be invested to obtain returns from goods or financial assets.

Interest is considered the return obtained from investing money for profit and is an important factor in investment decisions.

# Financial Investments

(Deposit Accounts and Mutual Funds)



**1** Money in savings accounts  
(Regular deposit accounts, lower savings bank accounts)

**2** Money in tax-efficient savings certificates  
(Not exceeding \$20,000)

**3** Money in fixed savings accounts  
(For 1 year term or more)

**4** Money in government bonds

**7** Common Types of Tax-Exempt Investments...

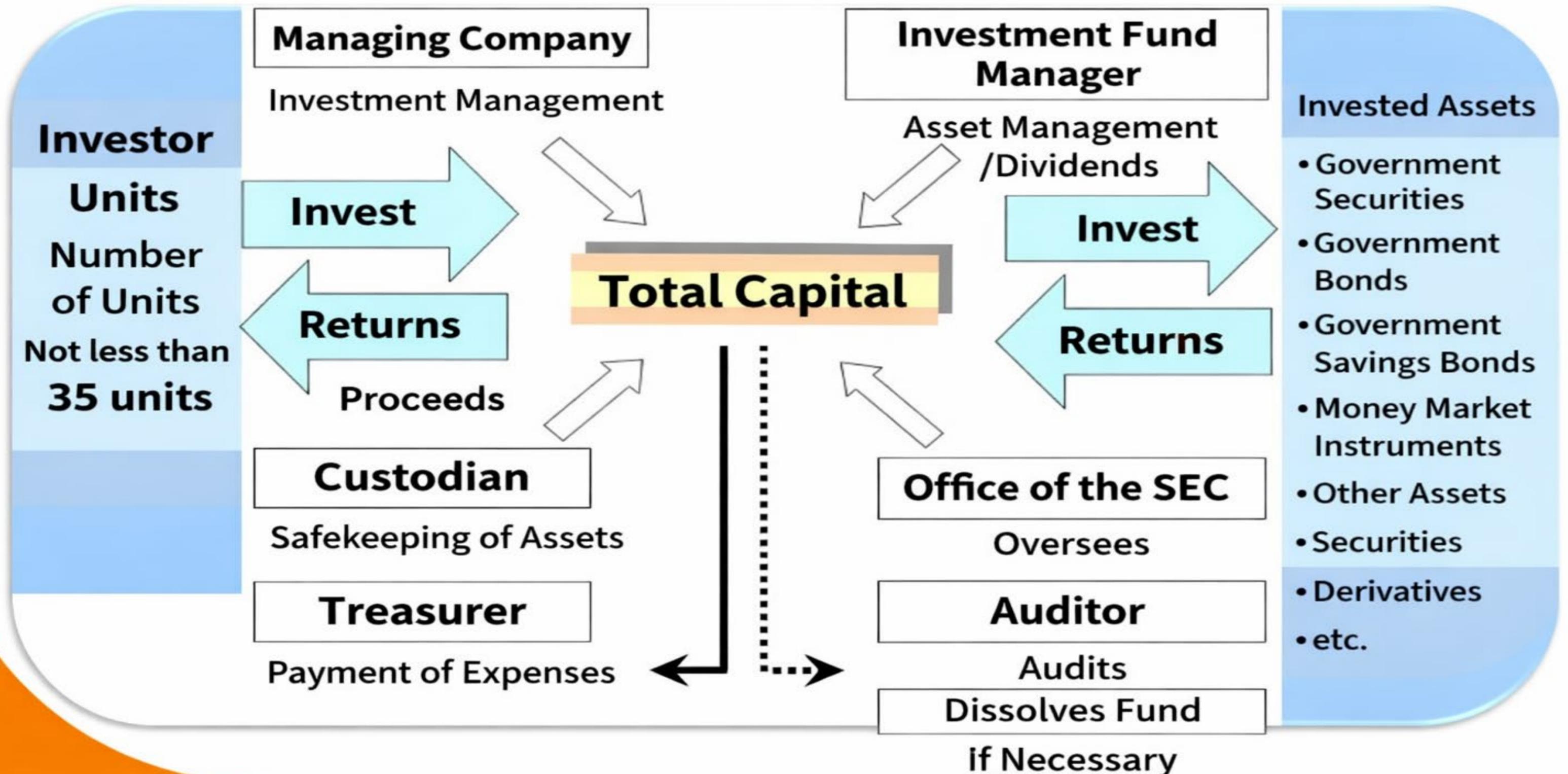
**5** Money in retirement mutual funds

**6** Investment in mutual funds with a long-term investment policy

**7** Investment in mutual funds related to infrastructure projects  
(Infrastructure Fund)

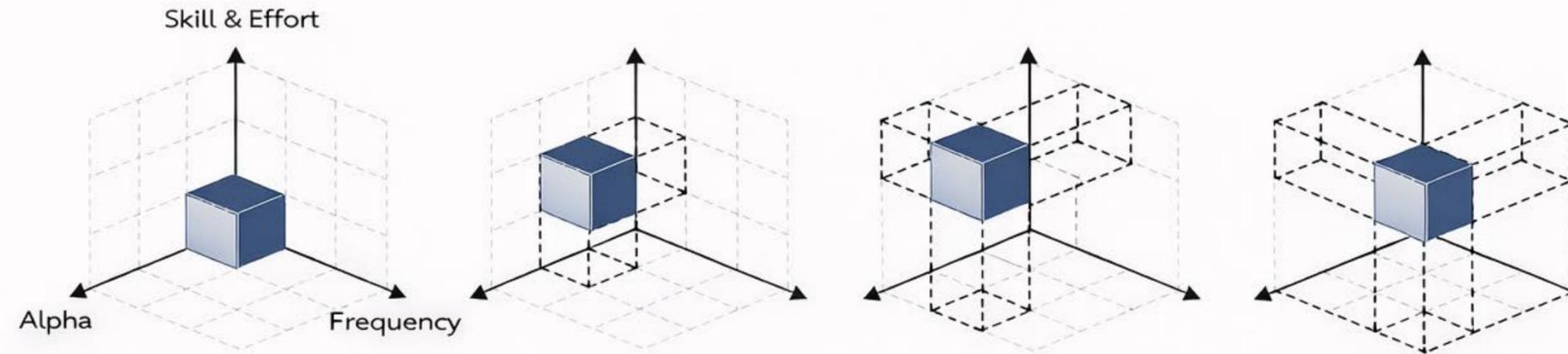


# Investment Management (Total Capital)



# Financial Investment (Mutual Funds)

Choosing a Stock Investing Method... Find What Suits You Best!



Expected Returns	Passive Investing (Beta Tracker)	Passive Investing (Alpha Hunter)	Value Investing (Fundamental Analysis)	Trading (Technical Analysis)
Expected Returns	Close to market	Slightly better than market	Much better than market	Much better than market
Confidence in Information	Low	Low	Low-Medium	High
Investment Duration	Moderate	Moderate	High	Very High
Investment Selection	Invest regularly long-term (Dollar Cost Averaging: DCA)	Actively managed funds (Active Fund)	Focus on selecting good stocks with intrinsic value or underpriced below intrinsic value	Market timing using Indicators
Investment Tools Used	Index / Passive Fund	(None Needed)	<ul style="list-style-type: none"> <li>Individual Stocks</li> <li>Study fundamental factors in depth</li> </ul>	<ul style="list-style-type: none"> <li>Individual Stocks</li> <li>Study technical factors and price behavior through charts &amp; graphs</li> </ul>

← A-Academy recommends learning this primarily →

**Note:** This is a general summary using overall characteristics. It may not reflect each individual's investing behavior. Please use discretion and research further.

# Demand for Money and Interest Rate

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## Assumptions

- Holding money yields no return (the interest rate is zero).
- Depositing money or purchasing various financial assets provides a return in the form of interest.

**Therefore**, holding cash without investing results in an **opportunity cost**, which is the interest that could have been earned.

# Demand for Money and Interest Rate

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- When the interest rate increases  $\rightarrow$  the opportunity cost of holding money increases accordingly.
- The quantity of money demanded (*Demand for Money:  $M^d$* ) varies inversely with the interest rate (*Interest Rate:  $i$* ).

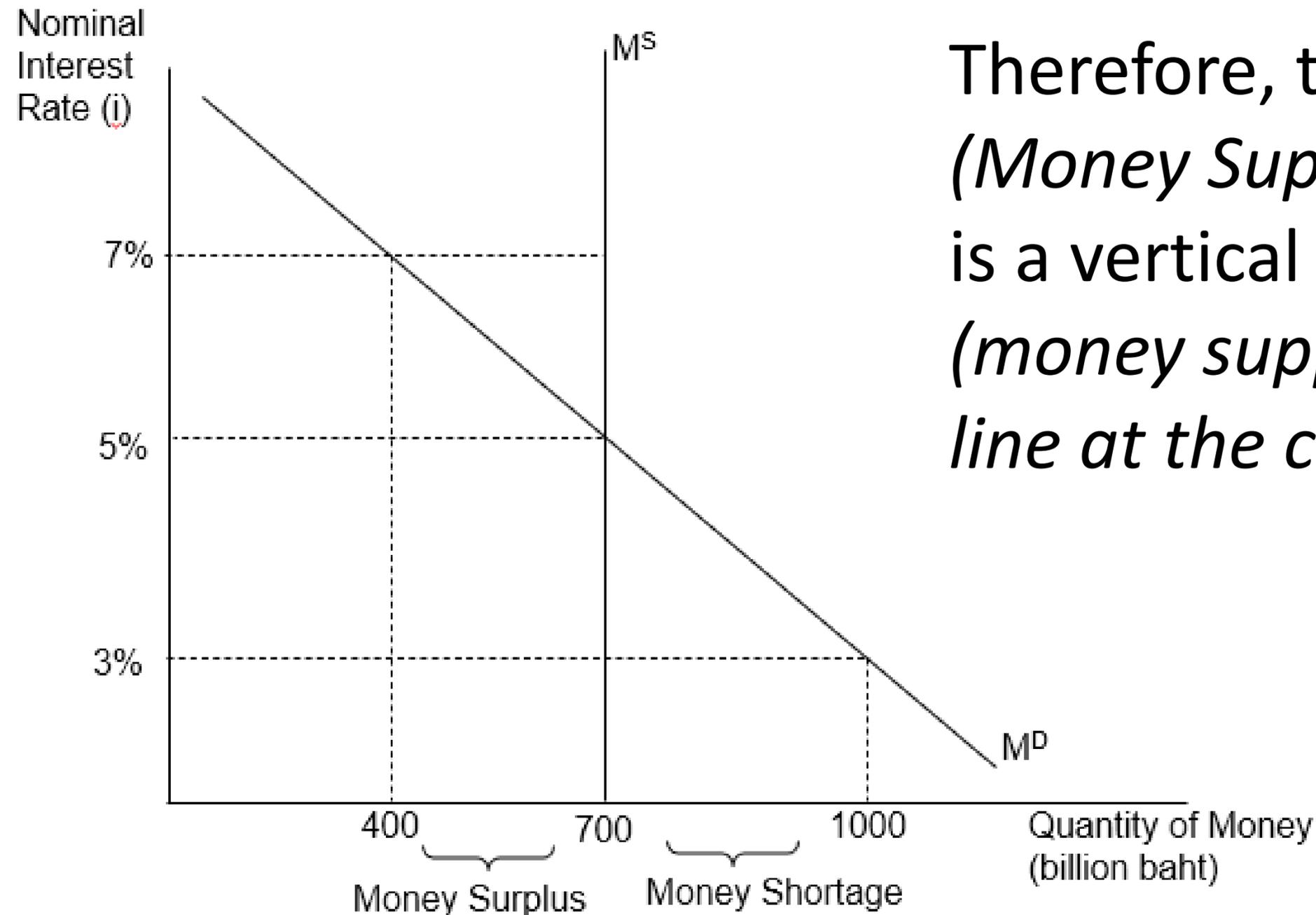
$$\begin{aligned} \uparrow i &\rightarrow M^d \downarrow \\ \downarrow i &\rightarrow M^d \uparrow \end{aligned}$$

# Money Supply and Interest Rate

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- Each country has a central bank (Central Bank) whose role is to supervise and control the money supply and to set monetary policy (Monetary Policy).
- Since the money supply (Money Supply:  $M^S$ ) is determined by the central bank (for Thailand, this is the Bank of Thailand: BOT), in money market analysis it is therefore assumed that the money supply (Money Supply:  $M^S$ ) does not vary with the interest rate (Interest Rate:  $i$ ) (that is, the central bank determines the quantity of money).

# Money Supply and Interest Rate



Therefore, the money supply curve (*Money Supply Curve:  $M^S$* ) is a vertical line (*money supply curve as a vertical line at the current money supply*).

# Changes in Money Market Equilibrium



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- The equilibrium interest rate will increase ( $\uparrow$ ) in the case that:
    - Money demand increases ( $M^d \uparrow$ )
    - Money supply decreases ( $M^s \downarrow$ )
  - The equilibrium interest rate will decrease ( $\downarrow$ ) in the case that:
    - Money demand decreases ( $M^d \downarrow$ )
    - Money supply increases ( $M^s \uparrow$ )
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# Inflation

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- **Inflation means a general increase in the overall price level of goods that continues over time.**
- **An important factor used to identify the existence of inflation is time.**
- **The measure used to track changes in the price level is the price index.**

# Causes of Inflation

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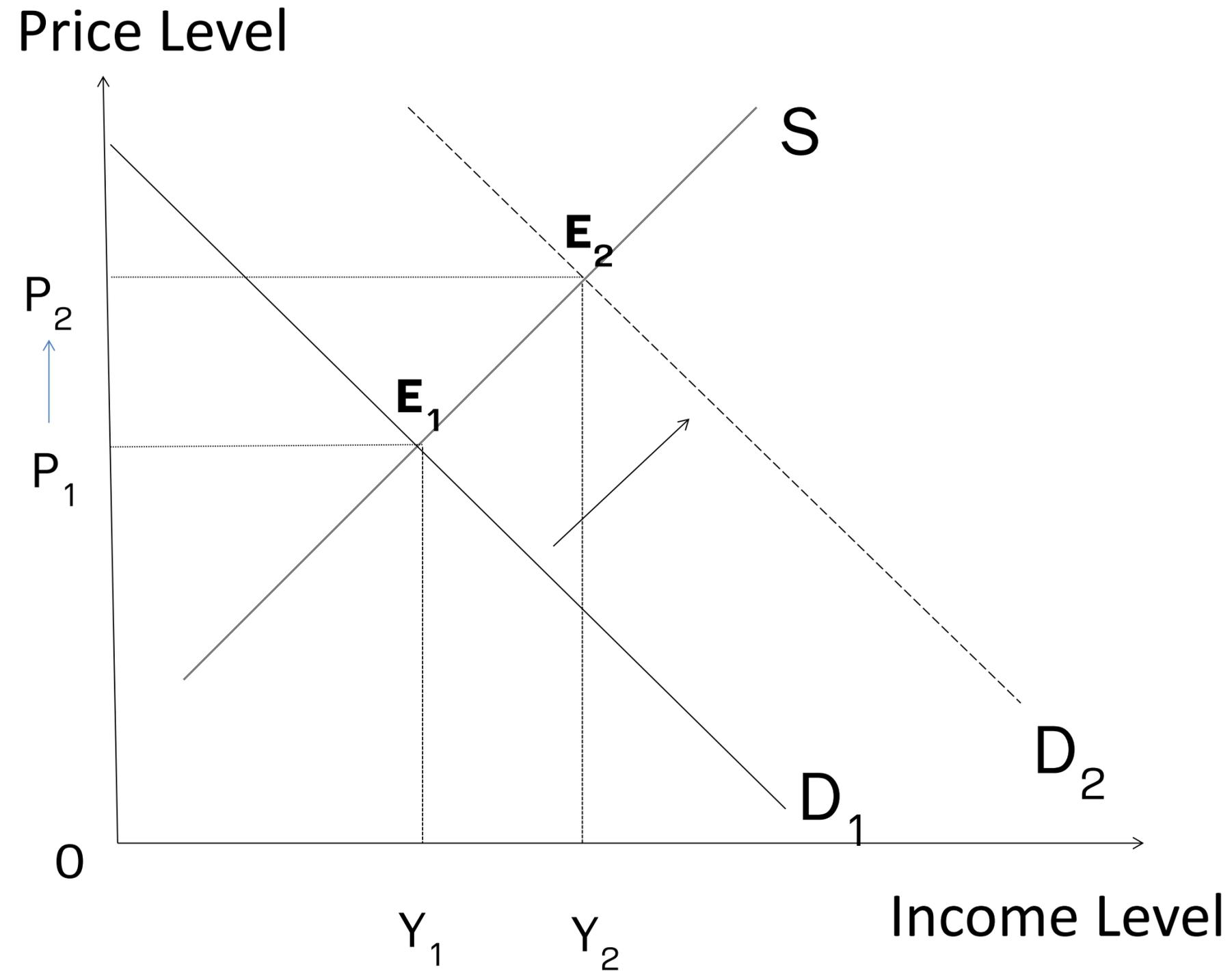
1. Demand-side inflation or inflation caused by demand-side pressures (Demand-Pull Inflation)
2. Supply-side inflation or inflation caused by increased production costs (Cost-Push Inflation)

# Demand-Pull Inflation

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- Demand-pull inflation refers to an explanation of the causes of inflation on the demand side, which arises when aggregate demand exceeds aggregate supply at the prevailing price level. The result is an increase in the prices of goods and services.
- Inflation caused by demand occurs when aggregate demand increases at a faster rate than output at the full-employment level, resulting in an increase in the equilibrium price level.

# Demand-Pull Inflation



# Cost-Push Inflation

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- Cost-push inflation refers to inflation that arises from supply-side factors or increases in production costs, which producers consider when determining the prices of goods and services.
- If costs increase, such as higher wages, higher raw material prices, or changes in foreign exchange rates, this will result in an increase in the overall price level.

# Cost-Push Inflation

