

## **Money Creation**

We have seen that the M1 money supply consists of currency (coins and Federal Reserve Notes) and checkable deposits and that M1 is a base component of M2, a broader measure of the money supply that also includes savings deposits, small-denominated time deposits, and balances in money market mutual funds. The U.S. Mint produces the coins, and the U.S. Bureau of Engraving and Printing creates the Federal Reserve Notes. So who creates the checkable deposits? Surprisingly, loan officers! Although that may sound like something a congressional committee should investigate, the monetary authorities are well aware that banks and thrifts create checkable deposits. In fact, the Federal Reserve relies on these institutions to create this vital component of the nation's money supply. The topics of money creation and the money provide a foundation for understanding the stabilizing effects of monetary policy. Use of the T accounts as found in this chapter provides a clear, consistent learning tool for understanding how the process of money creation occurs.