

M1 AND M3

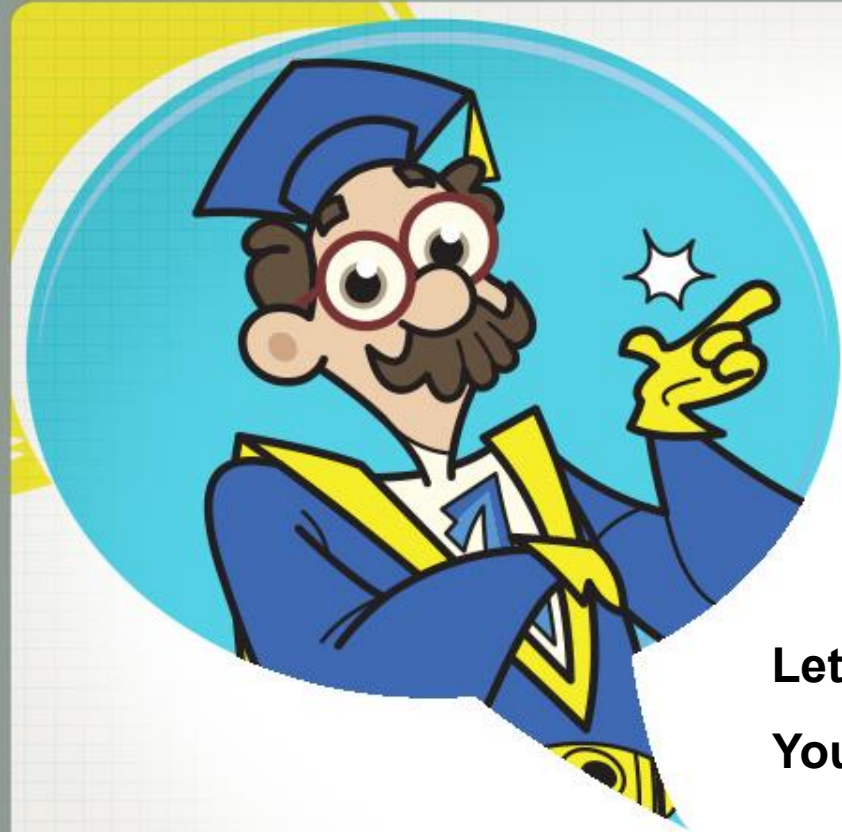


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Understanding M1 and M3



M1 AND M3



**Let's say you are extremely hungry.
You go to the nearest restaurant.**

**What is it that you would order
when you are in such a state?**



M1 AND M3

Perhaps you would ask what can be prepared quickly because your hunger clearly seems to be getting the better of you.



M1 AND M3

You would not order Biryani since it needs to be cooked slowly for it to taste really well.

But if something is needed immediately the best option is sandwiches, snacks etc.



M1 AND M3

Let's say we term the quickly available snack items collectively as F1 and the food items in the menu that the restaurant serves (including those that can be served quickly) as F3.



M1 AND M3

In short,

Quick food items = F1

All food items in the Menu (including F1) = F3



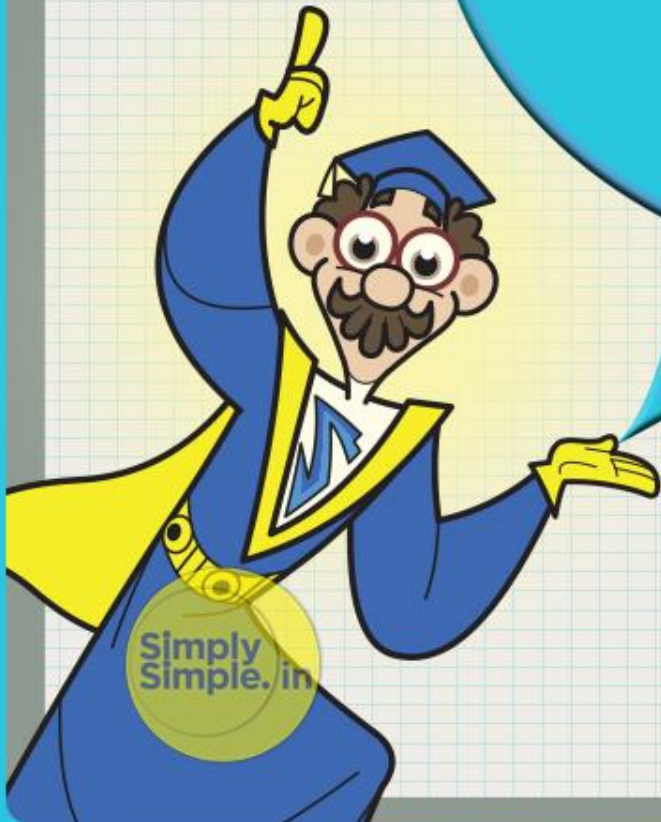
M1 AND M3

Now if we were to replace the Food by Money the context changes as in Money which is easily available like the sandwiches, snacks etc can be termed M1 while all the money that is there which includes M1 is then termed M3.



M1 AND M3

Let's analyze when money can be easily made available (M1).



M1 AND M3

M1 is the money in your pocket or in your cupboard or in your savings bank account against which you can issue a cheque and buy goods and services immediately without resorting to any planning whatsoever. We also refer to this money as highly liquid currency.



M1 AND M3

Similarly the money which is readily available (M1) plus that which is parked as time deposits in the banks is together termed as M3.



M1 AND M3

While M1 is liquid, the bank deposits are not easily usable because one would have to break the deposits first.

Hence in comparison to M1, bank deposits can be seen as less liquid currency.

So $M3 = M1 + \text{Time deposits with the bank.}$



M1 AND M3

M3 is the broadest measure of money; it is used by economists to estimate the entire supply of money within an economy at any given point of time.



M1 AND M3



Hope the above explanation would help you to understand the concept of M1 and M3.

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