Money performs three critical economic functions. First, it acts as a medium of exchange, facilitating transactions between buyers and sellers and enabling trade. Without money, complex modern economies would have to rely on inefficient barter systems. Second, money serves as a unit of account, providing a common measure of value that allows prices to be set on goods and services. This standardization enables easy comparisons of relative values and costs. Finally, money is a store of value that allows individuals and entities to preserve purchasing power over time. By storing wealth in monetary form, savings can be accumulated and spent at a later date.

Money supply is measured and tracked by central banks to help implement effective monetary policy. In the United States, the Federal Reserve measures different types of money supply, including M0, M1, M2, and M3. M0 is the narrowest measure and includes only the most liquid assets - physical currency and bank reserves. M1 adds checkable deposits to M0. M2, the most commonly used measure, includes M1 plus savings accounts, time deposits under $100,000, and retail money market mutual funds. M3 is the broadest measure and incorporates large time deposits over $100,000, institutional money market funds, short-term repurchase agreements, and other liquid assets. By monitoring total money supply and its components, the Fed can determine the appropriate levels of interest rates and credit to help achieve its dual mandate of maximum employment and stable prices. Changes in money supply also provide insight into the pace of economic activity and prospects for growth or contraction. Accurate measurement and analysis of money supply is thus crucial for sound policymaking and understanding macroeconomic trends.

Wright, R.E. & Quadrini, V. (2009). Money and Banking. Saylor Foundation.