

Unit 10

Banks, Money and the Credit Market

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Introduction

Introduction Textbook

Economics is a choice between alternatives all the time. Those are the trade-offs.

- Paul Samuelson

- Food spoils, barrels leak, yet all trades take **time**.
- Time is both the friend and the foe: depreciation & appreciation
- **Inter-temporal assets** allow agents to **carry value over time**.
- What are inter-temporal assets?

Examples	Money	Capital	Bond / Debt	Social Security	Housing
Value ↑ / ↓	↓	↓	↓	↑	↑ (?)
Cause (?)	inflates	tech	default	age	develop

Table: Examples of Intertemporal Assets

Income, Borrowing and Saving

Money, Income and Wealth

- **Money**: medium of exchange, allow **transfer** of purchasing power
 - Whether a currency is **trust-worthy** is important
- (Flow) **Income**: amount of money receive for a period of time
 - wage bill, market earning, investment, gov transfer
- (Stock) **Wealth**: inter-temporal assets carry values
 - buildings, land, machinery, capital goods – debts + credit

Other Key Concepts

- Depreciation / Appreciation: value of stock \downarrow / \uparrow over time
- Net income = gross income – depreciation
- Savings: income not consumed
- Investment: Expenditure on newly produced capital goods

Inter-temporal Substitution

- As time is here, **current you** and **future you** are sharing for resources
- The opportunity cost of **more current goods** is **less future gooes**
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Appendix

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