



Bilkent University

Department of Economics

Money, Banking and Central Banks

Mahmut S. İpek

Bilkent University

Ankara

February 28, 2026

What makes something *money*?

- ▶ Medium of

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- ▶ Medium of exchange: can it be used to settle transactions?
- ▶ Unit of

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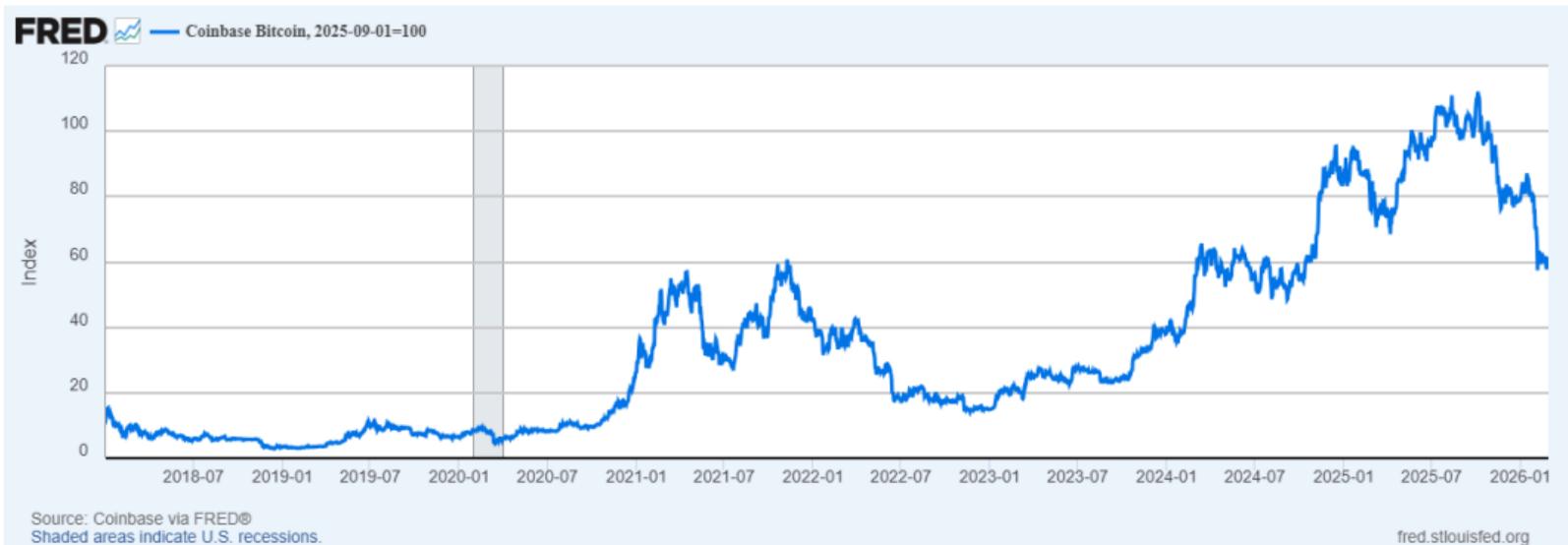
- ▶ Medium of exchange: can it be used to settle transactions?
- ▶ Unit of account: are prices quoted in it?
- ▶ Store of

What makes something *money*?

- ▶ Medium of exchange: can it be used to settle transactions?
- ▶ Unit of account: are prices quoted in it?
- ▶ Store of value: does it preserve purchasing power over time?

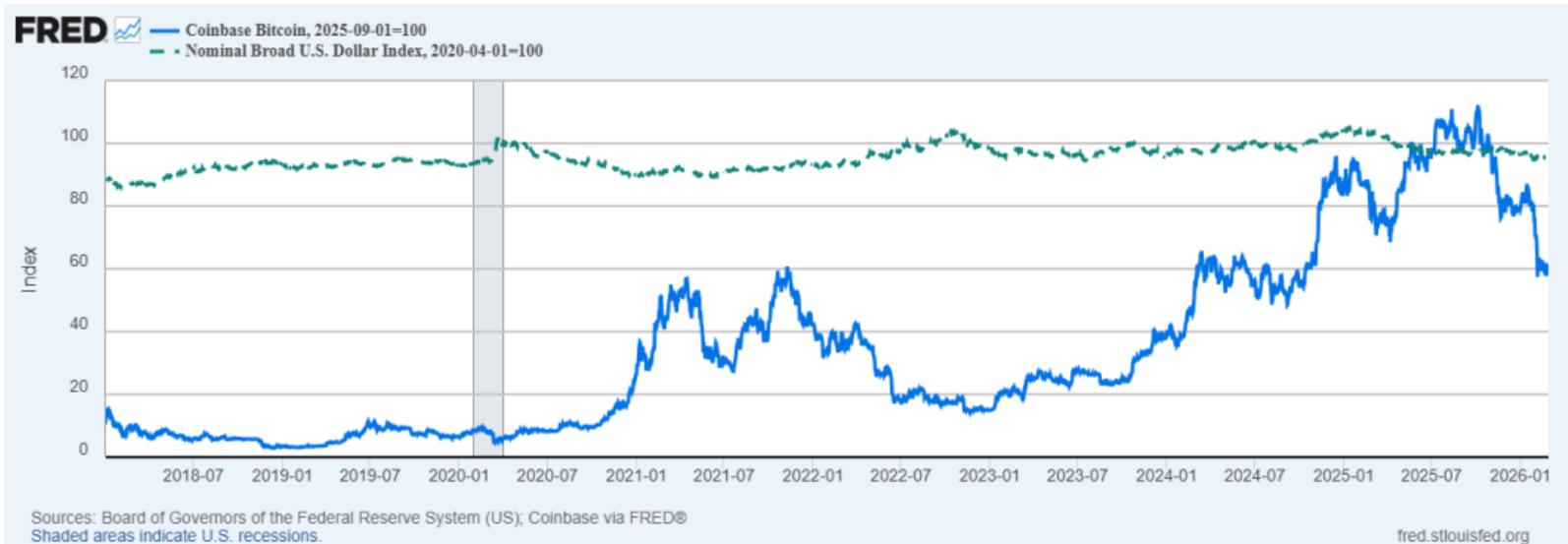
Is Bitcoin money?

- ▶ Medium of exchange?
- ▶ Unit of account?
- ▶ Store of value?



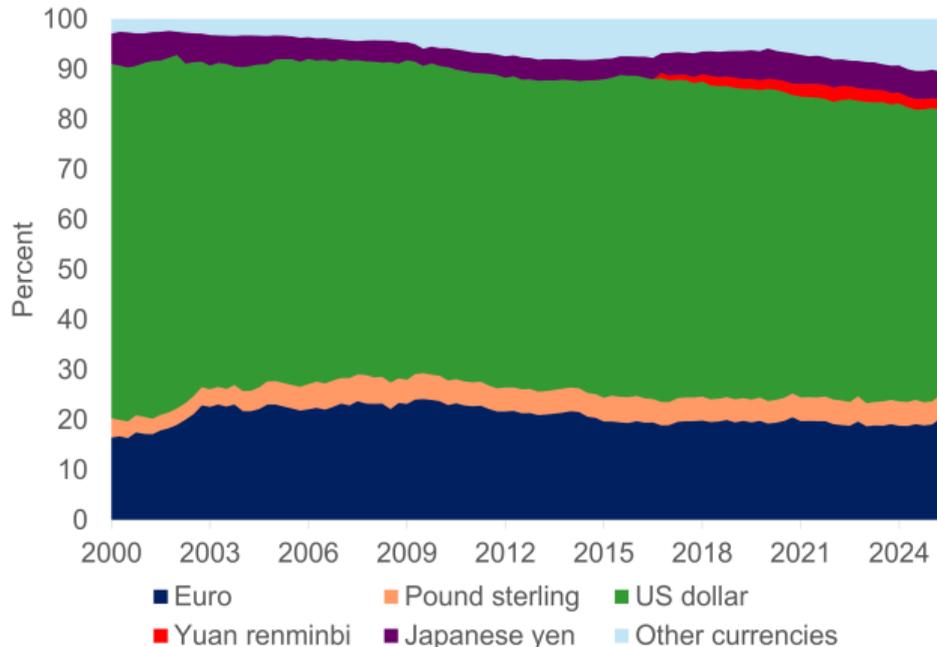
Is Bitcoin money?

- ▶ Store of value?
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FX reserves of central banks

Composition of global FX reserves



Source: IMF

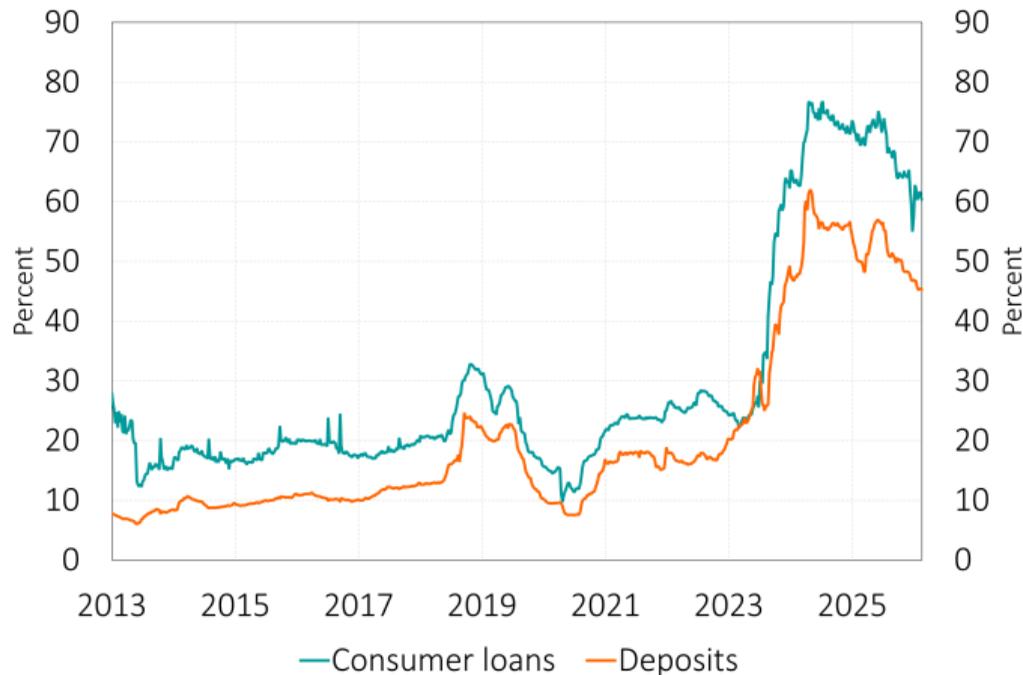
- ▶ Why are some currencies safer than others?

- ▶ Why do banks exist? What do they produce?

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- ▶ What is an interest rate?

Loans vs. deposits

Interest rates in Turkey

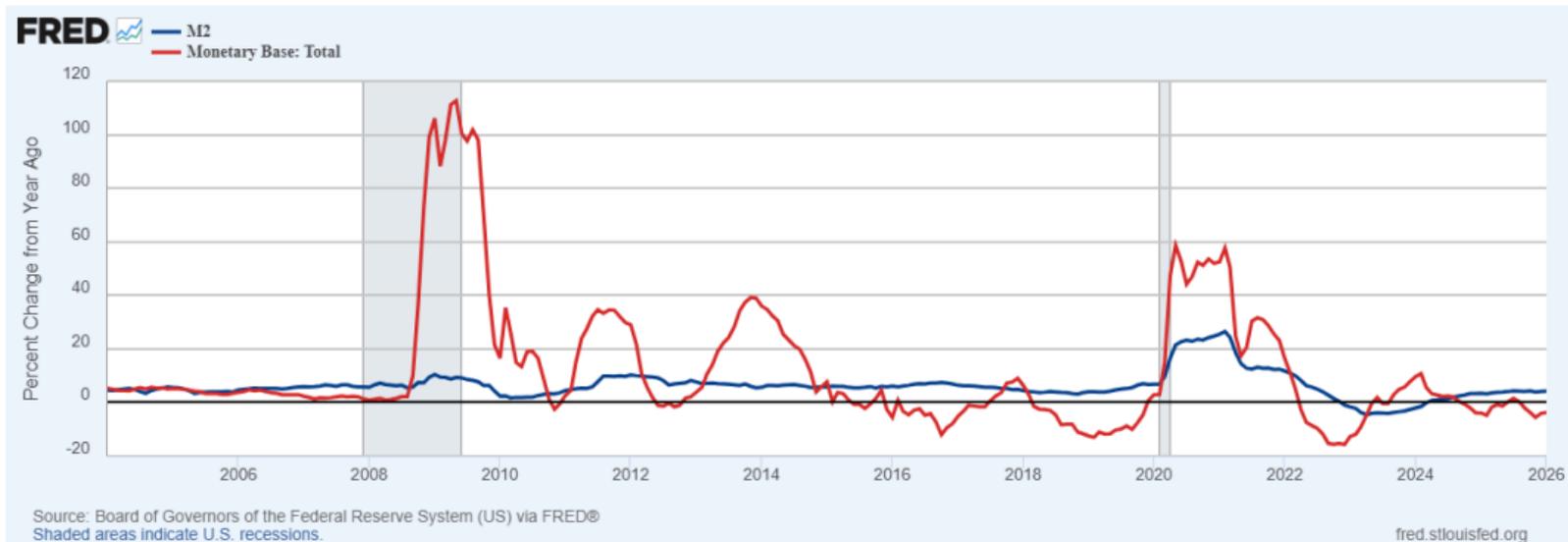


Source: EVDS

- ▶ Why are consumer loan rates higher than deposit rates?

Who creates money?

Who creates money?



Red line: Growth of bank lending capacity, Blue line: Growth of money supply

What does a negative interest rate on deposits mean?



Bank run

| | | Agent B | |
|---------|----------|----------|------|
| | | Withdraw | Keep |
| Agent A | Withdraw | W,W | W,K |
| | Keep | K,W | K,K |

- ▶ What are the equilibria?
- ▶ What does the lender of last resort mean?

Lender of last resort → Price stability



TÜRKİYE CUMHURİYET
MERKEZ BANKASI

The primary objective of the Bank is to achieve and maintain **price stability**.

Central Bank Balance Sheet

Assets

Government Bonds

Foreign Exchange Reserves

Loans to Banks

Other Assets

Liabilities

Currency in Circulation

Bank Reserves

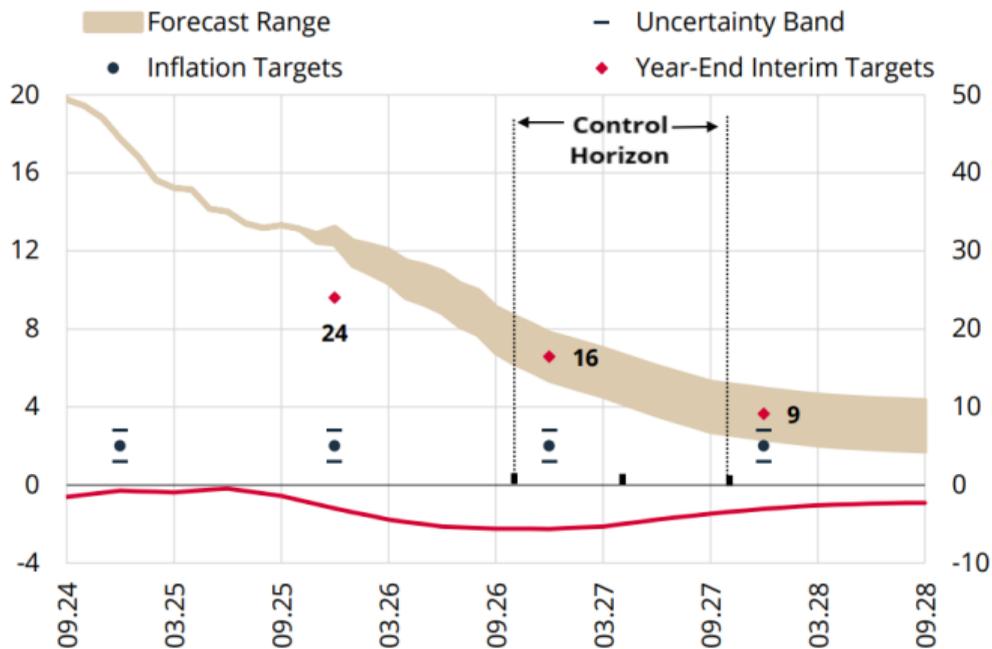
Government Deposits

Other Liabilities

Assets = Liabilities

Central banking is about managing expectations

Chart 3.2.1: Inflation Forecasts* (%)

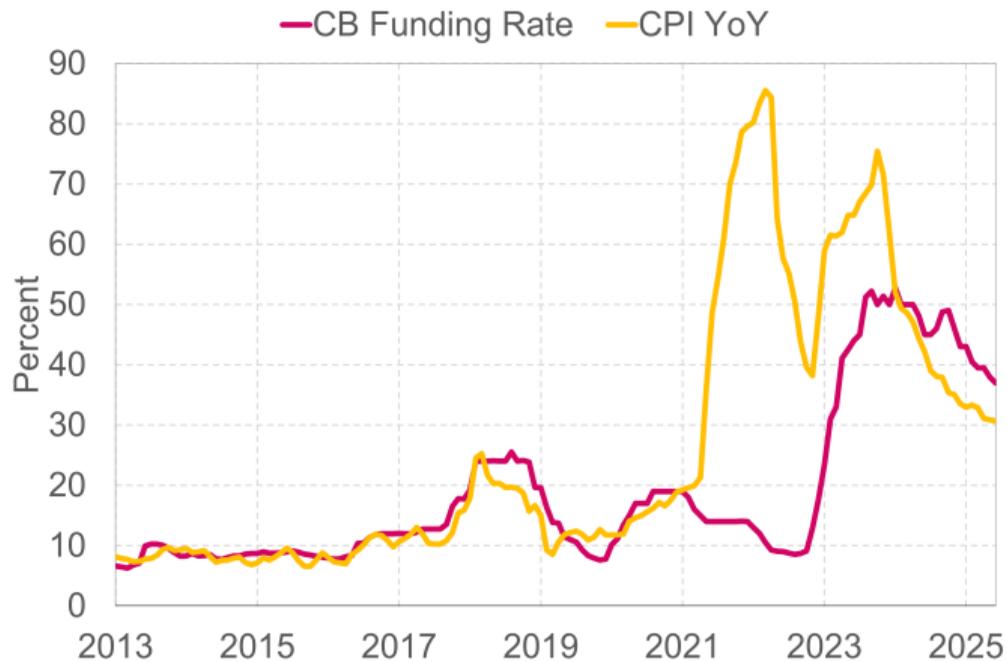


Source: CBRT, TURKSTAT.

* Shaded area denotes the 70% confidence interval for the forecast.

Policy rate vs. Inflation

Which is leading the other?



Source: EVDS