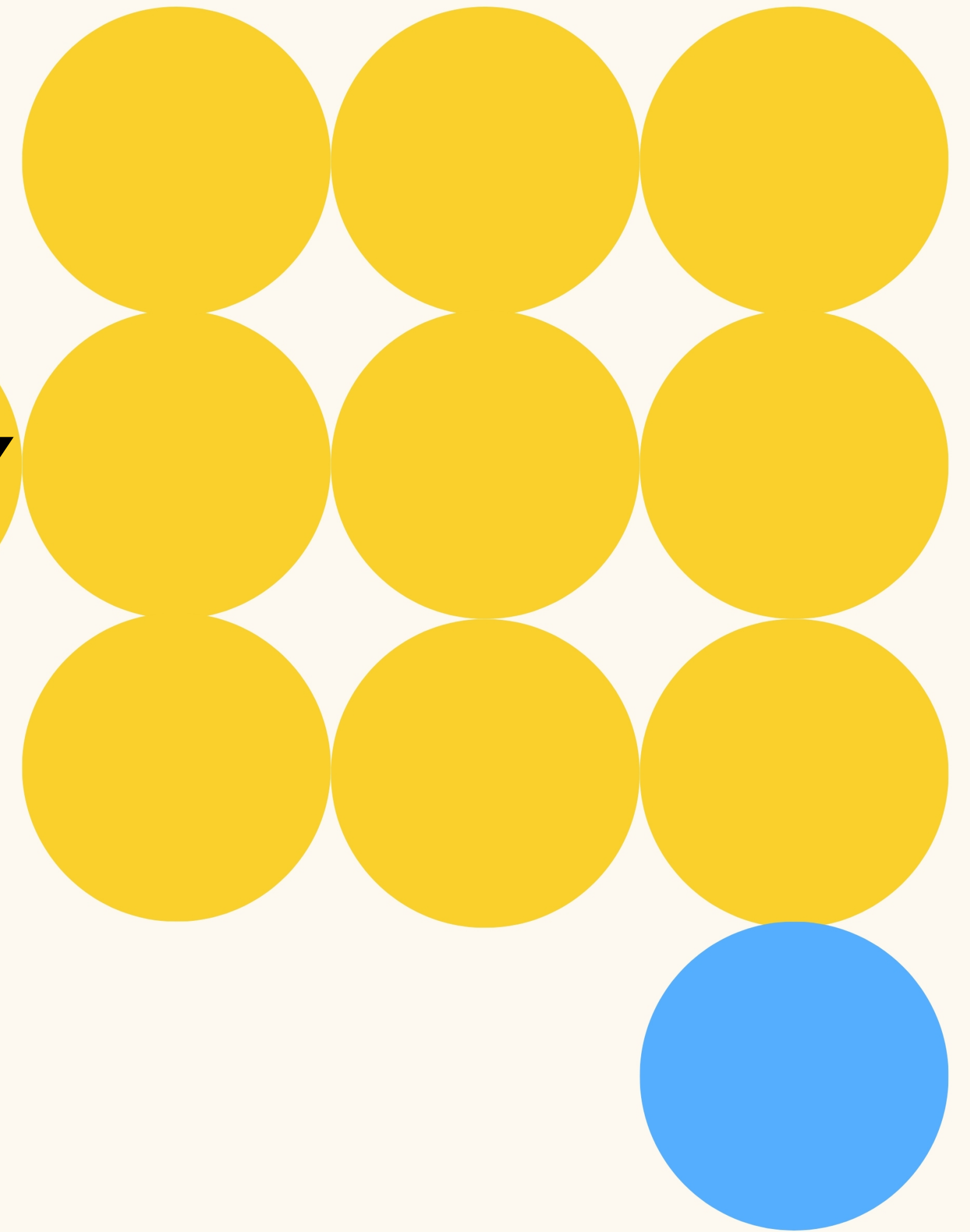


# **CHAPTER 27**

# **MONETARY POLICY**

**Macroeconomics - year11**



# Agenda

Drive growth of monthly sales volume of purchases

- Multiple choice
- Essay

Be the most desirable brand



# RECAP

1. **Monetary policy** : Policies to control AD and inflation rate by changing money supply, the rate of interest and the exchange rate to influence aggregate demand.

## **Expansionary monetary policy**

Increasing money supply and cutting interest rate to increase aggregate demand.

## **Contractionary monetary policy**

Reducing money supply and increasing interest rate to reduce aggregate demand.

# RECAP

1. **Monetary policy** : Policies to control AD and inflation rate by changing money supply, the rate of interest and the exchange rate to influence aggregate demand.
2. **Expansionary Monetary Policy**: increasing money supply and cutting interest rate to increase aggregate demand (AD). This leads to "higher economic growth" and "high employment."
3. **Contractionary Monetary Policy**: Reducing money supply and increasing interest rate to reduce aggregate demand (AD). This leads to "reduced inflation" and "a reduced trade deficit, resulting in stability in the balance of payments."

# Part1-Multiple choice

**1. What is the primary objective of monetary policy?**

- a) To control government spending
- b) To regulate the money supply and interest rates
- c) To manage income tax
- d) To set tax rates

# Part1-Multiple choice

**1. What is the primary objective of monetary policy?**

- a) To control government spending
- b) To regulate the money supply and interest rates
- c) To manage income tax
- d) To set tax rates

Answer: b) To regulate the money supply and interest rates

# Part1-Multiple choice

## 2. Quantitative easing (QE) refers to:

- a) Raising interest rates to control inflation
- b) The central bank purchasing financial assets to increase the money supply
- c) Reducing government spending to balance the budget
- d) Increasing taxes to reduce consumer spending

# Part1-Multiple choice

## 2. Quantitative easing (QE) refers to:

- a) Raising interest rates to control inflation
- b) The central bank purchasing financial assets to increase the money supply
- c) Reducing government spending to balance the budget
- d) Increasing taxes to reduce consumer spending

Answer: b) The central bank purchasing financial assets to increase the money supply

# Part1-Multiple choice

**3. Which of the following is a potential effect of a decrease in interest rates?**

- a) Decreased consumer spending
- b) Increased cost of borrowing
- c) Depreciation of the domestic currency
- d) Lower investment by firms

# Part1-Multiple choice

**3. Which of the following is a potential effect of a decrease in interest rates?**

- a) Decreased consumer spending
- b) Increased cost of borrowing
- c) Depreciation of the domestic currency
- d) Lower investment by firms

# Part1-Multiple choice

**3. Which of the following is a potential effect of a decrease in interest rates?**

- a) Decreased consumer spending
- b) Increased cost of borrowing
- c) Depreciation of the domestic currency
- d) Lower investment by firms

Answer: c) Depreciation of the domestic currency

# Part1-Multiple choice

**4. Contractionary monetary policy is typically used to:**

- a) Combat deflation
- b) Stimulate economic growth
- c) Reduce high inflation
- d) Increase employment

# Part1-Multiple choice

**4. Contractionary monetary policy is typically used to:**

- a) Combat deflation
- b) Stimulate economic growth
- c) Reduce high inflation
- d) Increase employment

Answer: c) Reduce high inflation

# Part2-Essay

- 1 (a) Define the term 'monetary policy'. [2]
- 2 (b) Explain two disadvantages of lowering interest rates . [4]**
- 3 (c) Analyse how raising interest rates might lead to higher unemployment [6]
- 4 (d) Evaluate the arguments for and against a central bank increasing interest rates. [8]

# Part2-Essay

**2 (b) Explain two disadvantages of lowering interest rates . [4]**

# Part2-Essay

**2 (b) Explain two disadvantages of lowering interest rates . [4]**

# The End

