MONETARY POLICY

Student's Name

Course

Professor's Name

University

City (State)

Date

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MONETARY POLICY

STRENGTHS AND WEAKNESSES IN TERMS OF DELIVERY AND CONTENT

1. Which country have you chosen? What is the current inflation rate? Interest rate?

U.S has a current inflation rate of 1.2% and interest rate of 0%.

2. What monetary policies are the government of your country undertaking?

Buying and selling of Treasury securities

Applying charges on the discount rates

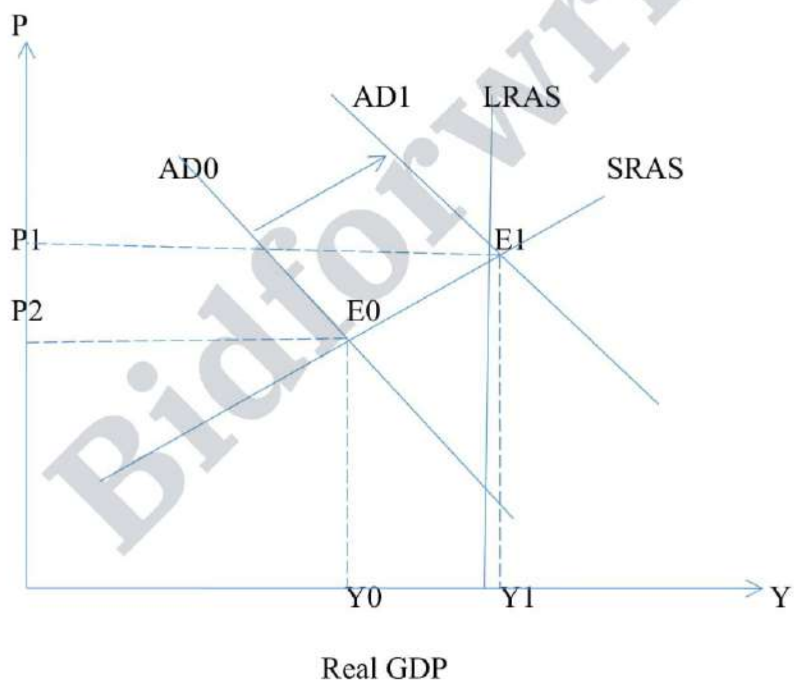
Reducing the reserve ration

3. Explain what the central bank is trying to achieve with its monetary policies.

The central bank seeks to manage inflation rate, reduce unemployment rates and promote moderate long-term interest rates in the U.S.

4. Use the AS/AD model to explain the various pressures on the inflation rate.

Inflationary pressure from a shift in Aggregate Demand (AD)



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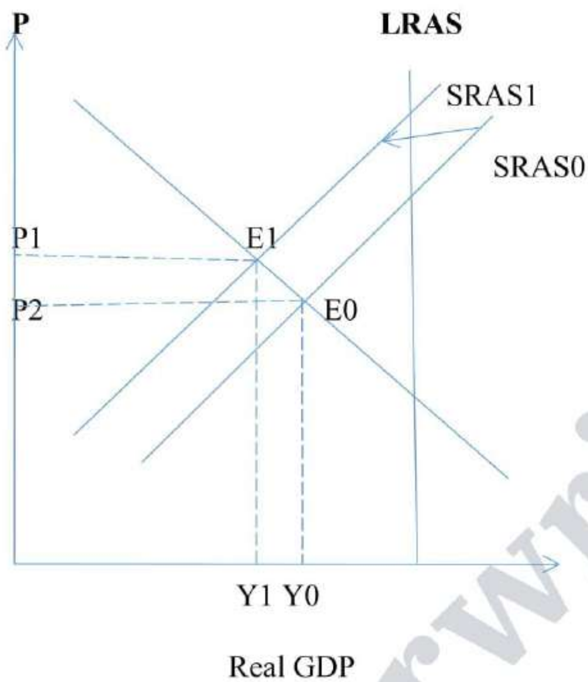
A pressure on the inflation rate as depicted in the diagram when the AD0 continues to shift to the AD1. This causes the Equilibrium price to move from E0 to E1. This indicates that the AD in the economy increases, and this cannot be matched with the available labour (Dean et al., 2020, p.3). A further shift in the AD1 will trigger an increased price level.



Inflationary pressure from a shift in Aggregate Supply (AS)

Inflationary pressure also results from a rise in the input price level. This is indicated by SRAS0 shift to SRAS1, leading to an increased price level in the economy from P2 to P1. Besides, the Equilibrium price moves from E0 to E1.

5. Use the market for money supply and money demand to explain the various pressures on the interest rate.

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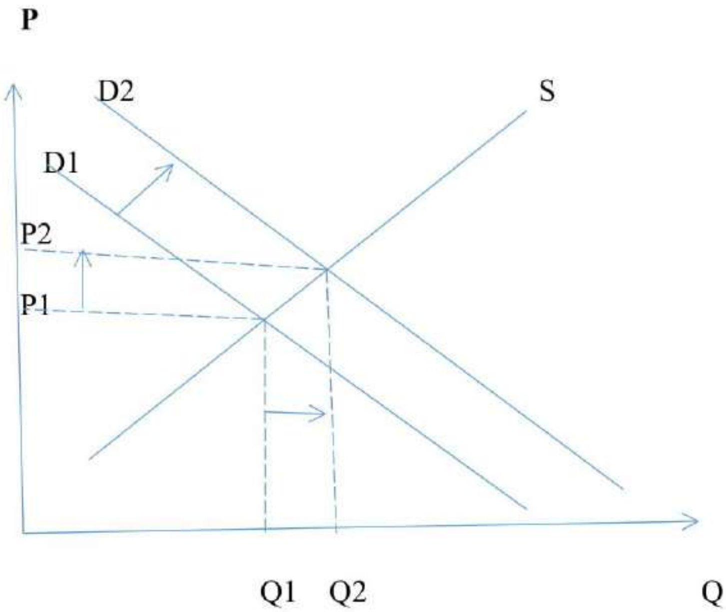

The Y-axis in the graph indicates the price of money (P) while the X-axis indicates the quantity of money (Q). An increase in the quantity of money demanded leads to an increase in interest rates, thereby leading to a shift and increase in the demand curve from D1 to D2. On the other hand, the curve shifts to the left when the Demand curve decreases.

6. What limits the size of the money multiplier?

The money multiplier size is limited by an increase in the required reserve ratio and an increase in currency drain.

7. What is your opinion on your country's monetary policy?

The monetary policy used in my country depicts a slow expansion of the economy. Also, the inflation projections are to remain below the set target.

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Reference List

Dean, E., Elardo, J., Green, M., Wilson, B. and Berger, S., 2020. Monetary Policy and Economic Outcomes. *Principles of Economics: Scarcity and Social Provisioning (2nd Ed.)*.

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