

				2.5 Monetary policy Big Questions: <ol style="list-style-type: none"> 1. Explain how monetary policy works? 2. Evaluate monetary policy. 		<u>Example</u>	<u>U-tube</u>		
120			Interest rate determination and the role of a central bank	<ul style="list-style-type: none"> • Describe the role of central banks as regulators of commercial banks and bankers to governments. • Explain that central banks are usually made responsible for interest rates and exchange rates in order to achieve macroeconomic objectives. • Explain, using a demand and supply of money diagram, how equilibrium interest rates are determined, outlining the role of the central bank in influencing the supply of money. 		<u>Example</u>	<u>U-tube</u>	4	
<u>The role of monetary policy</u>									
121			Monetary policy and short-term demand management	<ul style="list-style-type: none"> • Explain how changes in interest rates can influence the level of aggregate demand in an economy. • Describe the mechanism through which easy (expansionary) monetary policy can help an economy close a deflationary (recessionary) gap. • Construct a diagram to show the potential effects of easy (expansionary) monetary policy, outlining the importance of the shape of the aggregate supply curve. • Describe the mechanism through which tight (contractionary) monetary policy can help an economy close an inflationary gap. • Construct a diagram to show the potential effects of tight (contractionary) monetary policy, outlining 		<u>Example</u>	<u>U-tube</u>	5	

				the importance of the shape of the aggregate supply curve.					
122			Monetary policy and inflation targeting	<ul style="list-style-type: none"> • Explain that central banks of certain countries, rather than focusing on the maintenance of both full employment and a low rate of inflation, are guided in their monetary policy by the objective to achieve an explicit or implicit inflation rate target. 		<p>Example</p> <p>May 2013</p> <p>The Japanese central bank said it will massively expand the country's money supply to spur inflation as it strives to get the world's third-largest economy out of its slump.</p> <p>The Bank of Japan ended a two-day policy today vowing to achieve a 2% inflation target at "the earliest possible time."</p> <p>To do so, the central bank has launched "a new phase of monetary easing both in terms of quantity and quality" that will double the money supply, it said in a statement.</p> <p>Source: rte.ie</p>	<u>U-tube</u>	3	
123			Evaluation of monetary policy	<ul style="list-style-type: none"> • Evaluate the effectiveness of monetary policy through consideration of factors including the independence of the central bank, the ability to adjust interest rates incrementally, the ability to implement changes in interest rates relatively quickly, time lags, limited effectiveness in increasing aggregate demand if the economy is in deep recession and conflict among government economic objectives. 		Example	<u>U-tube</u>	5	

Item	hl	sl	Must Know	Must know very well! Here are the details of what you need to know.	Reading	Example	U- tube	W E I G H T	W E B N O T E
------	----	----	-----------	---	---------	---------	------------	----------------------------	---------------------------------