The reserve bank of australia and interest rates

Economics, Money

How is an increase in the cash rate likely to affect mortgage interest rates? Increases will be announced almost immediately in variable rates. How is an increase in the cash rate likely to affect imports An increase in the cash rate may attract an additional flow in of foreign investment funds which will increase the AUD exchange rate. Foreign goods priced in a currency against which the AUD has appreciated will be cheaper in AUD terms and thus the quantity of the goods sold may will increase.

How is an increase in the cash rate likely to affect the exchange rate? An increase in the cash rate may attract an additional inflow of foreign investment funds which will increase the AUD exchange rate (appreciate the currency). 20. Will a drop in the cash rate affect inflation? Explain. Theoretically it will. A drop in the cash rate will stimulate borrowing, investment and economic activity. The increased demand for resources will put upward pressure on the prices of resources and may lead to inflation. Answers to in-chapter questions 3. What is likely to happen to the monetary base when (a) Centrelink credits age pension to pensioners' bank accounts? – increase inmoneysupply, (b) the RBA buys government securities from Australian investors and (c) banks raise funds by an overseas note issue?

A – increase in money supply B – increase in money supply C – no change as if the payments are received in forex, then they exchange the currency for AUD already in the money supply. If the payments are received in AUD, then other agents have already exchanged the forex for AUD. 3. Why do the financial markets pay so much attention to the cash rate? The cash rate reflects the monetary policy stance and the influence the RBA is trying to exert on the level of economic activity. It also has a significant impact on consumer and business confidence, willingness to invest and spend and ability to service their debt. 3. 4 Describe the likely consequences for GDP growth when the RBA sells CGS to raise funds for the Commonwealth Government A sale of CGS will reduce the supply of money in the economy all other things being equal.

This will lead to increased in interest rates as money supply reduces. Higher interest rates reduce the spending power of consumers and business. This results in less spending, investment and a general decline in asset values as spending tightens. Consumers and business are also likely to become more conservative as rates increase. This would then limit GDP growth. It also must be consider for what purpose the funds will be used and this may mitigate the restrictive monetary policy position.