# Discussion: interest rates

Finance

DISCUSSION: INTEREST RATES Lecturer: DISCUSSION: INTEREST RATES

Inflation, economic output and savings are three macroeconomic factors that influence interest rate directly. As inflation goes up, banks and other financial institutions raise interest rate to serve as a hedge against depreciation of the quantitative value of money (Brigham & Houston, 2013). Higher economic output and savings are however associated with lower interest rates because they indicate the robustness of the economy, which gives an indication that the quantitative value of money will remain stable for a very long term (Brigham & Houston, 2013).

The logistics industry is one that is greatly affected by inflation as a macroeconomic factor. Indeed there are several reasons the logistics industry is sensitive to inflation. Largely though, inflation brings about increases in the prices of goods and services, which automatically results in reduced purchasing power of consumers. When there is reduced purchasing power of consumers, their demand for goods and services also becomes affected negatively. Meanwhile, it is when there is a booming supply of goods that wholesalers and retailers depend on logistics transportation. So as demand goes down and is met with an automatic reduction in supply, the logistics industry becomes affected negatively.

Two contemporary factors that seem to be impacting on the logistics industry and having direct impact on the interest rate are high rate of new entreats and internationalization market expansion. As an industry that operates a perfect competition market structure, there is high threat of new entrants. But as new entrants join the industry, they require higher operating capital to stay competitive against older companies with brand equity in the sector. Because of this, the rate of access to financial support has increased, leading to rise in interest rates. For those that go international, the degree of currency risk arising from differences in currency causes them to hedge against exchange rate. But this is a practice that puts pressure on the currency, causing banks to also raise interest rates to cushion against currency depreciation (Brigham & Houston, 2013).

REFERENCES

Brigham, E., & Houston, J. (2013). Fundamentals of financial management (13th ed.). Mason, OH: Cengage Learning.