Capital mrket

Finance

FINANCE AND ACCOUNTING IN AUSTRALIA By Location Banks, corporate, and other financial firms have the responsibility of trading billions of dollars each day within the Australian money markets. This involves buying and selling of bank bills, discount securities and some short term loans. Just like the rest of the countries, money market in Australia is typically a liquid and deep market in which participants are allowed to borrow as well as invest large amounts of money cost effectively and efficiently (Felmingham 1995, p. 23). There has been a discussion on whether RBAs method of trading in the money market to maintain the cash rate is better or worse than if the federal government simply set the cash rate. It is arguably better if RBAs maintain the cash rate as compared to the federal government simply setting the cash rate. One of the reasons why it would be better if the RBAs are allowed to maintain the cash rate is because they are better in responding to pressures in their money markets. This is because of the Australian flexibility in frameworks for operating open markets within the country. The bank is therefore best suited to respond to pressures within the market more promptly and seamlessly with minimal alterations within the operating framework.

RBAs method of trading in the money market to maintain the cash rate is again better than if the federal government simply set the cash rate because banks carry out their open market operations everyday. This ensures offset of smooth flows between the government and the private banking system. It also ensures that there are enough funds to operate within the market and adequate cash rate to maintain target. This, the bank operates by predominantly employing (repos) repurchase agreements, in which it buys a security with the agreement that it would sell bank in future at an agreed price (Felmingham 1995, p. 114). Unlike the federal government, the bank in this case can, and has been able to operate at a deal of a variety of terms and discriminatorily against a range of collateral classes.

The official cash rate is a term that is used in both New Zealand and Australia for the bank rate to refer to the interest rate that is charged by the central bank to commercial banks on overnight loans. This gives the Reserve Bank of Australia the ability to adjust to the interest rates of the country's economy. An additional advantage of the RBAs maintaining cash rate over the government setting cash rate is that the bank, unlike the federal government, can settle all interactions within banks immediately. The bank is able to control the charge that is paid for cash by the purchase back of bonds or sale. The government, on the other hand, comes in here to provide securities (Felmingham 1995, p. 209). As the sale of purchased bonds affects money supply, the interest rate then changes and reflects its availability. This system has an indirect effect to the structure of rates of interest in the entire economy.

Generally, RBAs method of trading in the money market to maintain the cash rate is seemingly better than if the federal government simply set the cash rate. The Reserve Bank in general has the ability to offer a faster response to pressures within the money market. This is because it can modify its domestic operational dealings majorly within the existing structure.

Bibliography

Felmingham D., 1995, Money and Finance in the Australian Economy, Granite: Irwin.