Objectives of monetary policy

Business

The effects of increasing inflation and unemployment can result in significant economic challenges for any given country. Therefore, a monetary policy is critical in achieving employment and eliminating inflation in a country's total output. Hence, the key objective of a monetary policy is to target and control inflation. Among other objectives of monetary policy is influencing the fluctuation of interest rates and the availability of credit in order to stabilize the aggregate employment and output and, consequently, the price levels (Mahadeva, 2012). Monetary policy encourages increased credit during and before a recession for the stimulation of spending. Consequently, this action controls the available credit during and before an economic boom to restrict spending and the occurrence of inflation.

The cause-and-effect chain of monetary policy results in actions taken by the central bank of any given country. The central bank implements policies aimed at decreasing the interest rates while encouraging the increase of money supplied and borrowed (Mahadeva, 2012). Consequently, reduced interest rates and the readily available credit from banks induce an upward trend in spending. As a result, the Gross Domestic Product equilibrium is driven upwards. The resulting effect of inflation is the depreciation of money value; hence, its purchasing power is reduced. A rapid increase in inflation causes the central bank to take measures of reducing the quantity of money in circulation through such measures as selling government bonds.

Meanwhile, the central bank can raise interest rates in the short term. Short-term measures implemented by the central banks make policy makers to critically evaluate the economic atmosphere in order to promote sustainable growth and minimize inflation in the long run (Nicke, 2007). The

independence of the central banks makes it possible to make decisions that influence the economic needs of the country. As a result, decision making process is expedited; therefore, economic crises are resolved immediately. Monetary policies lead to effective decisions being taken, which have an impact on the economy as the whole.