# Introduction when they speculate that they will get

ASSIGN BUSTER

# Introduction

Monetary policies are macroeconomics regulations, enacted by central government of a state. They aim at controlling macroeconomic activities within an economy directly or indirectly; it involves control of supply and availability of money (Bofinger, Reischle and Schachter 17). In the United States of America, the power to use monetary policies is vested in Central Bank, the Bank of Canada and the Federal Reserve Bank; however, they should work as a team when making the policies. This paper discusses how monetary policies work.

# Basic objectives of monetary policies

The main objective of monetary policies is to control the supply of money in an economy, which in turn affects other sectors of macroeconomics. The areas that the policies aim at affecting indirectly are: To attain low unemployment rates and increase the rate at which an economy produces business and employment opportunities Lower the inflation rate and probably stabilize it Attain an improved and sustainable economic growth Attain and strength balance of external payments

# The cause and effect chain through which monetary policy is made effective

To enact monetary policies, there are a number of tools adopted, they are: Open market operations: under this strategy, the government sells or buys securities (bonds and bills)in the financial markets, the aim of the approach is to control the rate of inflation Reserve requirements: Commercial banks are expected to keep some reserves with the central bank to get a license of

operation; as a monetary policy, the government may decide to increase the reserve (contraction policy) or may reduce the reserve (expansion policy). Discount window lending: Central bank offers loan facilities to central banks at an interest; the interest can be increased or decreased depending with what the government wants to attain. When increased, then the government wants to discourage lending in the economy thus curing inflation.

When the rate has been reduced, then the government wants to motivate lending within the economy. Interest rates: The government may be involved in policies either directly or indirectly aimed at reducing or increasing interest rate within an economy( Bofinger, Reischle and Schachter 12)

## What are the major strengths of monetary policy?

The strength of monetary policies is the ability to control the supply of money within an economy. The tools of the policy have direct impact on an economy's money market. Through commercial banks, an economy supply of money can be controlled by either increasing/reducing the lending rate directly or indirectly. Alternatively, the policies are strengthened by investors' character of speculation; investors are willing to spend more when they speculate that they will get higher interests; they are also likely to hold their expenditure if they anticipate low gains. With this in mind, then the policies are made to create certain impressions that facilitate the attainment of their desired goal.

## What is going on with US' monetary policy right now?

The world is recovering from financial crisis that started in 2007; the United States has enacted expansionary monetary policies to facilitate its quick

recovery. The United States Central Bank has made the lending rate in the economy favorable to attract domestic and foreign investments. The policy aims at increasing the flow of money in the economy; however, the central bank under the policy called “ hands-off” approach, aims at controlling the quality of credit offered by commercial banks. The tools used in the policy are interest rate approach and discount window-lending approach (Adrian and Hyun, 600-605).

# Works Cited

Adrian, Tobias, and Hyun Shin.

“ Money, Liquidity and Monetary Policy.” American Economic Review, Papers and Proceedings 99. 2 (2009): 600? 605. Print. Bofinger, Peter, Reischle Julian, and Schachter Andrea. Monetary policy: goals, institutions, strategies, and instruments.

Oxford: Oxford University Press, 2001. Print.