# Monetary policy and the stock market in china

Literature, Russian Literature

The rationale for the topic of this paper is the accession of China as a global economic power that has risen to the point where it influences global investment events. At the core of the above are the country's economic policies that have been devised using its Five Year Plans that include the use of deft monetary policies to control inflation, interest rates, and currency exchange. It is these areas that have played a large part in providing the stability that has helped to attract FDI inflows, consistent value for stock market prices, and aid in increased exports. The low exchange rate of the Renminbi has helped to make Chinese exports more attractive and to ensure the affordability and value of stock market prices as a result of consistent currency exchange rates. This means that domestic and international investors in Chinese stock do not have the added concern that exchange rates will erode stock price values or company valuations. This represented one of the key problems this study has sought to solve as the aim represented a combination of a highly complex set of areas. The approach used to address this aspect represented the use of journals and other sources that included statistics to uncover the answers to the research questions. Through extensive research, it was found that monetary policy in China has been an integral part of the country's Five Year Plans and economic policies. This study uncovered that whilst China's economic policies are the central point of its Five Year Plans it is a monetary policy that helps to actuate the above. The stock market represents a highly important monetary source for companies as it is a source to raise funds for operations through the issuance of stock (Coval and Stafford, 2007, pp. 482-485). Research by Christiano et al (2010, pp. 4-5) found there is a correlation between low-interest-rate adjustments by a country’s central bank and stock market booms. China has been selected as the subject country because it represents a three-decade transformation from an underdeveloped country to the world’s second-largest economy that has resulted in a vast array of studies exploring the manner how the Chinese have transformed their economy (Brockmann et al, 2009, pp. 391-397). As shall be explained under the review of literature, China’s government control of banks extends to monetary policy and its stock market. China is a socialist market economy where the state controls all monetary, fiscal and important areas (the stock market included) (Sigley, 2006, pp. 493-496). This differs from an open market economy where the decisions are based on supply and demand, and the prices for services and goods are determined under a free price mechanism. Whilst there are different types of government interventions (interest rate changes, inflation adjustments, etc.) under most forms of open market economies, these are based on market forces and international developments as opposed to governmental interference (Sigley, 2006, pp. 493-496). China has intervened in its economy through varied monetary policies concerning the Renminbi (RMB) that have caused comments by the United States and other countries (Blanchard, 2011, pp. 7-9). The argument contends that China has been keeping the value of the Renminbi artificially low to boost exports that have helped to increase its trade surplus, along with making an investment in the stock market attractive due to the low price of its currency (Glick and Hutchison, 2009, pp. 211-215).