Monetary economics: interest rates and debts

Literature, Russian Literature

Monetary economics:

Interest rates:

The statement states that interest rates in the past ten years have been low compared to the past forty years interest rates, this means that in the last 10 years interest rates have remained low and declines, it also means that the last ten year period have recorded the lowest interest rates ever. We retrieve data to check the trend of interest rates over the years to determine whether the statement is true. The following chart summarizes the rates over the past 40 years.

The chart shows us the trend in interest rates over the past 40 years, the past 10 years according to the chart shows a period of low and prolonged low interest rates. This means that the Fed have set their rates at very low levels in the last ten years, this is policy measure to encourage investment and also to check inflation, therefore the statement is true.

Debts:

Inflation, money supply and debts are related, when monetary policy measures are aimed at increasing money supply then interest rates are reduced and this will definitely increase money supply where investors borrow more from the bank, therefore money supply plays a role in solving problems of inflation, deflation and economic growth.

In order to solve problems of high inflation in the economy monetary policy makers will increase interest rates, as a result of this there will be a decline in the amount available for investors to borrow, rational investors will also not borrow more due to the increased cost of debts caused by the increase

in interest rates.

Poor economic growth can also be solved through debts; this means that the banks will make more money available to investors at low interest rates which will encourage investors to borrow, more investments means that the level of output and employment will increase in the economy.

Banks are important in implementing these policy measures and therefore they help solve problems of inflation, deflation and slow economic growth, they are important institutions in the economy in that they help in implementing policies made by monetary policy makers and this is because monetary policy makers do not have direct contact with the individuals in the economy.

Current problems have interfered with the roles that banks play in the economy, current states of the economy are in such a way that investors have lost confidence with financial institutions are less willing to invest or borrow, the only solution to such problems is for the government to interfere with the financial markets in order to boost investor confidence.

References:

WSJ (2008) historical US rates, retrieved on 31st October, available at http://www. wsjprimerate. us/wall_street_journal_prime_rate_history. htm