Economic effects of the easy money concept

Literature, Russian Literature

Easy Money: Too Much of a Good Thing The nation's top selling newspaper, The Wall Street Journal, is the starting point of America's business. The journal releases the most recent updates in the political and business arena. Most importantly, it relates the recent news events both domestically and internationally to business and market alterations. More so, The Wall Street Journal gives updates on the important matters on different economic issues. This essay briefly provides an opinion on the current economic issue that interest readers of the wall street journal readers. The most recent news in the journal as far as economy is concerned is easy money.   Wall Street Journal, Global Economics Editor, David Wessel, deliberates on the important issues in the business world, that is, central banks, easy money, asset purchases and bubbles. Actually, the article, Easy Money: Too Much of a Good Thing is all about the above mentioned issues. Currently as we speak, the article reveals that the Dow Jones Industrial Average has increased by 14% since September when the Federal Reserve established a third round of bond buying in September. Additionally, when the president of the European Central Bank swore in July to do all that is possible to protect euro, The Stoxx Europe 600 indexes has increased to 22%. Similarly, Japan's Nikkei has increased to 22% since the Bank of Japan disclosed the big bond-buying initiative in April and over 50% since the election of a new government that campaigned on installing an aggressive central banker (" Wall Street Journal" Web). This in my view, is a positive effect that central bank gained by printing lots of money and making them available in the market, to all investors, borrowers , and other interested parties. According to this article, the above mentioned forces are just but a few drivers behind the stock-market gains. Truly speaking, when the central bank prints lots of money and at the same time increase stocks, and other assets, the spending of businesses and consumers will increase. Many Americans have criticized Bush-Obama-Bernanke reaction towards the financial crisis and recession. However, the article also reveals that the combined one-two punch of fiscal and monetary policies has facilitated the expansion of the U. S. economy for the past 20 quarters. Notably, " Europe, which did less fiscal and less monetary stimulus, is mired in its second recession in a decade; its economy has been contracting for six quarters"(" Wall Street Journal" Web). This implies that availability of a lot of cash can easily result in rapid increase in the pricing of certain items and assets, which, in my own opinion can sometimes not be fair to consumers or buyers of these assets. Fed's action to reduce mortgage rates has assisted in home prices and construction. Moreover, there is a relief that the increasing stock and bond prices enables companies to settle " old debt and fattening rich Americans' brokerage accounts" (" Wall Street Journal" Web) as well as facilitating expansion of many companies. Indeed, this facilitated the growth and expansion of these companies. On the other hand, reduction in lending rate only worsen the situation as individuals and enterprises will borrow too much causing trouble to banks, more so, the investors will be discouraged by low yields on bank deposits, this shows that an increases or decrease in lending rate affects certain individual, be it banks, investors, borrowers or even companies. Therefore, I think the central bank should be very keen on any measure they take in order to equalize the situation. Some individuals have argued that the Fed bond buying has increased as compared to the first bond. The rapid growth of companies depends on the reduced rates to borrow excess money, and purchase mortgages as well as settle their huge dividends. In addition, the investors purchase huge bonds at very low rates, as small investors do borrow to purchase and increases their stock. These raised concerns have forced the central bank chairman, Ben Bernanke, to comment on low interest rates. Fed on the other hand, has to warn the banks to be cautious, and to decline depositing too much money or increase interest rates (“ Wall Street Journal” Web). High interest rates will probably discourage people from borrowing too much money. Increase or decrease on interest rates by central bank poses both negative and positive effects on individuals in terms of asset purchasing. Notably, either rise or fall of the interest rates influences the operations of the bank. As such, we can deduce that any move by the central bank influences people’s spending and borrowing habits. Hence, interferes with the state’s economy. Works Cited “ Wall Street Journal”. Easy Money: Too Much of a Good Thing? Wednesday, May 15, 2013. Web. May 21, 2013.