Macroeconomics annotation

A MACROECONOMIC ANNOTATION OF THE NEW YORK TIME'S ARTICLE " AS ECONOMY SLOWS, CHINA EASES MONETARY POLICY" [your teacher's of the course]

[date]

In September 2008, the Politburo, China's highest-ranking decision-making body announces a change in the monetary policy in the economy. As the country for the long time employs a tightening policy in order to combat inflation, the country takes on a reverse direction through a loosening monetary policy. In order to sustain development in the country, the Politburo believes that previous efforts are not enough when protecting the country from the global economic downturn. As the country's exports begin to slow, its real estate industry weakens, and the lost in the China's stock market by about three-fifths of its value, the decision-making body believes that the loosening monetary policy is appropriate. The China's central bank, People's Bank of China reflects the decision-making body's concern and aim for the change in policy.

The article's primary economic element is the lowering of the interest rate in the economy. This lowering of the benchmark interest rate has an effect on the country's monetary policy and money supply. According to Bradsher in the article, " effective Tuesday, the People's Bank of China lowered by 0. 27 percent, to 7. 2 percent, the regulated benchmark rate that commercial banks may charge for one-year loans to business borrowers with strong credit histories. Rates for shorter-term loans will be generally cut even more while rates for longer-term loans will be subject to smaller adjustments, the central bank said, without providing details (September 2008)." By lowering the interest rate, the central bank aims to signal to commercial banks to lower the lending rate. By lowering the lending rate, the country aims to make funds more accessible to business borrowers.

The monetary policy that the People’s Bank of China employs is cutting down the short-term interest rate in order to stimulate the economy by influencing the money supply.

In figure 1. 1, China’s benchmark rate is lowered. The interest rate aims to lower the money supply in the country. By lowering the money supply coupled with less stringent limits on lending, China’s Politburo aims to “ protect the country from the global economic downturn.”

By lowering the interest rate, China aims to signal commercial banks to lower down their lending rate which makes the cost of accessing financing lower. As is shown in figure 1. 2 and 1. 3, lowering the interest rates lower the costs to financing, which increases the investments in an economy.

This increase in investments due to lower costs of financing that is brought by this change in monetary policy does not increase proportionately in the economy. Figure 1. 4 shows the effect of the increase in investment in the economy. Because of the multiplier model, the increase in the investment is affected by a given multiplier in an economy; thus the economy rises so much more for every increase in the investment due to the lowering of interest rates as part of the monetary policy.

Figure 1. 5 shows the effect of the monetary policy on the aggregate demand of the economy. Due to the increase in investments, the aggregate demand curve shifts to the right which increases the gross domestic output in the economy.

The monetary policy that China’s Politburo and People’s Bank of China has announced includes lowering down the interest rates. By lowering the interest rates, the central bank signaled the commercial banks to lower down the interest rates that are charged to business borrowers. This change in monetary policy aims to lower down the cost of borrowing money which will provide more funds accessible; more available funds are aimed to be channeled down to business owners as less stringent limits on lending are enforced as part of the policy.

By lowering the interest rates, the government aims to stimulate the economy through higher investments, which will result in higher aggregate demand: reduction in unemployment as well as increase in output. This increase in aggregate demand by the increase in investment will likely increase the jobs that are available in the country. This aims to channel the effect to the country's overall consumption which also affects the overall output and investment. This monetary policy aims to provide some protection to the economy from the worsening global financial crisis by keeping aggregate demand in control, thus keeping the country from contracting.

Works Cited

Appleyard, Field, & Cobb. International Economics (5th ed.). McGraw-Hill Irwin: 2006.

Bradsher, Keith. “ As Economy Slows, China Eases Monetary Policy.” The New York Times Business. 15 September 2008. 28 January 2009.