

People money markets

[Economics](#), [Money](#)



After a few years of using the fiat system, the country of Monolayer decides to review its monetary institutions. Its economy has been quite volatile. Inflation has been high and the currency has depreciated. All this has caused foreign investment to drop dramatically. Currently, its central bankers are elected every two years. The country is considering a gold standard versus an independent central bank. What's the best way to go? Why? Answer: Monoplane's should consider Independent central bank over the gold standard.

In the long run, the Independent central bank will be most suitable for a country with a volatile economy. It has certain advantages over the gold standard. Individuals have more certainty in the Central Bank; thus this serves to decrease inflationary expectations. This makes inflation low and steady. Another reason to keep Central banks independent from government is that governments have a tendency to settle on poor choices about fiscal strategy. Specifically when there is a tendency to be impacted by political contemplations.

Therefore, when central bank is independent such ulterior motives of government officials have no impact on a country's economic state. Typically before elections, governments are enticed to cut interest rates. This expands investment development, diminishes unemployment and increments the political back of the gathering. On the other hand, this expansionary monetary policy might prompt inflation and blast and bust economic cycles. Therefore, it is better to take financial approach out of government's hand so they are not able to play with a country's economy for their personal gains.

Another reason to choose Independent central bank over gold standard is that gold standard limits the economic growth. Therefore, the country should continue to have fiat system with Independent central bank. Q. You're running the central bank of country called Cazenovia. The central bank that you lead is not Independent. So whenever the Prime Minister calls you to suggest that something be done, you obey. The Prime Minister calls you one day complaining that the currency is too high. Apparently, exporters are concerned that

Scandinavia high currency rate is making them lose business abroad. What could you do as a central banker to get the currency to decline? Answer: As a banker, there are several possibilities to cause the currency value to depreciate and still keep the economy strong. Interest rates and currency exchange rates are correlated. To get the currency of Conclave to decline, it is required by the central bank to decrease lending rates. Another way is to devalue the currency. By making it cheaper for the outside world to buy our goods and services at a lesser value than for the holders of

Convivial currency to purchase foreign goods and services. This will maintain the interest of foreign investors in our economy and they will pour more money into the economy. The exporters can keep making profits abroad. Furthermore, central banks can directly increase the supply of money on the foreign exchange markets. It can 1 OFF This will increase the supply of Convivial money on the foreign exchange market, and decrease the supply of foreign currency, causing a depreciation in the value of the our currency.