The transmission mechanism of monetary policy shows the routes through which changes in the bank base rate (a monetary policy instrument) affect inflation eventually. How long is this likely to take?

Label the diagram with the following

Change in bank rate

Inflation

Market rates of interest

Total demand

Import prices

Exchange rate

Net external demand

Domestic demand

Domestic inflationary pressure

Expectations/confidence

Asset prices

Now try to explain how a change in the bank base rate might affect these things.

Transmission mechanism of monetary policy