Monetary Policy

**Starter Quiz – Write your answers in the space below.**

1. The primary impact of Monetary Policy is on the demand side of the economy – T/F?
2. Monetary Policy only affects the demand side of the economy – T/F?
3. Who is the current Governor of the Bank of England?
4. What is the current Bank of England bank rate a.k.a. base rate?
5. Which organisation sets interest rates for Portugal and France?
6. Which organisation sets interest rates for Germany and Spain?
7. Identify the 3 strands of Monetary Policy.
8. How much Quantitative Easing has been pumped into the UK economy so far?
9. What is the current rate of inflation as measured by CPI?
10. What name is given to the central bank in the USA?

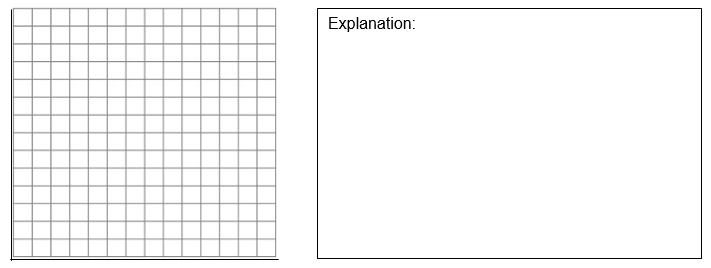
**Ext**: **i)** What was the ‘Forward Guidance’ set by the Bank of England in 2013? **ii)** Explain the Macroeconomic benefits of having ‘Forward Guidance’ in place.

**Monetary Policy**

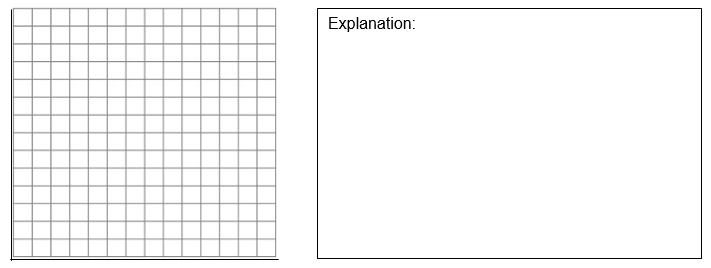
|  |  |
| --- | --- |
| **a) Interest Rates** |  |
| **b) Money Supply** |  |
| **c) Forward Guidance** |  |

**Activity 1:** Explain (with a diagram) how Monetary Policy can be used to achieve each Macroeconomic Objective.

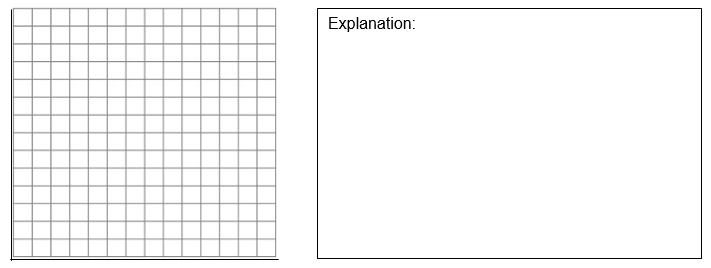
1. High Economic Growth



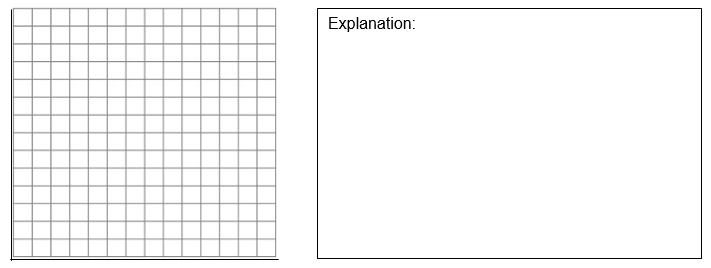
1. Low and Stable Inflation



1. Low Unemployment



1. Balanced Balance of Payments



**Ext:** Pick one of Macroeconomic objectives above and write 2 evaluative points in the space below.

**Functions of a Central Bank**

**Activity 2**: Produce a mind-map to explain the functions of a Central Bank

**EXTENSION CHOICE!**

**Option A:** Why is the Bank of England’s inflation target 2%? **Option B**: Explain what you think is meant by a ‘liquidity trap’.

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**Central Banks & Monetary Policy (a. QE, b. Base Rate, c. Forward Guidance, d. Funding for Lending Scheme)**

Visit the Bank of England website and watch the video clip on Quantitative Easing

**Activity 3:**

1. **Money Supply (Quantitative Easing)**

**i)** Draw a diagram to show how QE reduces interest rates for commercial banks

**ii)** Explain why QE causes a fall in interest rates (refer to diagram in your explanation)

|  |  |
| --- | --- |
| **iii)** The UK has injected the economy with \_\_\_\_\_\_\_\_\_\_\_\_\_\_of QE since the financial crisis of 2007/08. **TO WHAT EXTENT** has this had a positive impact on the macroeconomic objectives (continue on the next page if necessary). | |
| **Analysis (Explain benefits of QE)** | **Evaluation (Balance)** |
|  |  |

1. **Setting the Base (interest) Rate**
2. Identify the name of the team that meets monthly to set the Bank Rate.
3. What is the current bank base rate and how long has it been at this rate?
4. What do you expect to happen to the bank base rate in future months and years?
5. Analyse and Evaluate the impact of a rise in the BoE base rate. One evaluation per point (Ext: 2 evaluations per point)

|  |  |
| --- | --- |
| **Analysis of a change in the BoE base rate** | **Evaluation (why might this not be the case)** |
| **A)Market rate:** |  |
| **B) Asset prices**: |  |
| **C)Business confidence**: |  |
| **D) Exchange rates:** |  |

|  |  |
| --- | --- |
| 1. **ASSESS** (evaluate) the **MACROECONOMIC benefits** of the Bank of England cutting the BASE RATE from 4.5% in October 2008 to 0.5% in March 2009 to its most recent rate of \_\_\_\_\_\_\_\_ set in \_\_\_\_\_\_ (continue on the next page if necessary).   (**Top**: This would make a good plan for a 25 mark essay – you need 4 points of analysis and 2 evaluative points for each). | |
| **Analysis** | **Evaluation** |
|  |  |

**Forward Guidance**

What is forward guidance? What are the benefits of forward guidance?

**Funding for Lending Scheme**

What is the funding for lending scheme? What are the benefits and drawbacks of this scheme?