B.A. I Hons

Monetary Policy

Monetary Policy means monetary measures and decisions of a country which aim at controlling the volume of money, influencing the interest rates, public spending and use of money and credit.

= R. P. Kent — The management of the expansion and contraction of the volume of money in circulation for the explicit purpose of attaining a specific objective such as full employment.

G. Crowther — Monetary Policy consists of the steps taken to reduce to a minimum the disadvantages that flow from the existence and operation of the monetary system.

Objectives.

1. Neutrality of money — No cyclical fluctuations. No trade, No inflation, no deflation, in the economy.
2. Stability of Exchange rates.
3. Price Stability
4. Full Employment.
5. Economic Growth.

1. Neutrality of money = no fluctuations.

1. Cheap money policy VS dear money policy.

= CM Policy lowers the rate of interest whereas dear money policy raises the rate of interest.

Cheap money policy creates more money and discourage dishoarding idle assets brings prosperity.

Dear money encourage hoarding and destruction of credit money.

= Maintain velocity of circulation of money in balance.

2 Exchange Stability

= In underdeveloped countries the relationship between economic growth and exchange stability occupies a special importance. This solves the balance of payment problem.

3. Price Stability

During great depression of 1929-33, price stability and control of business cycle became important.

= Fluctuations in prices in upward direction and more so in the downward direction create difficult problem of production and distribution, besides, great economic unrest and political upheavals.

4. Full Employment.

Prof. G. Crowther — The main objective of monetary policy is to bring equilibrium between saving and investment in the country to achieve full employment.

5. Economic Growth

= Welfare State — raise the level of income — saving — capital formation - investment — production.

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