

Assess the effectiveness of monetary policy in controlling inflation.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question.
- apply relevant economic information, terms, concepts, relationships and theory.
- present a sustained, logical and cohesive response.

ALARM Logical Matrix



Name and Define Think about WHAT.

→ What is the whole process and what are the components, parts or steps within the process?

1. Monetary policy is _____

→ _____

Worked example:

Monetary policy is used by the central bank, such as the Reserve Bank of Australia, to influence and/ or target the interest rate in order to influence aggregate demand, employment and inflation in the economy.

2. Inflation and monetary policy are interrelated.

Use the following fragments to explore this point in your next sentences.

Aggregate demand

- changes to spending
- time lags
- uncertainty

Inflationary expectations

- confidence
- savings and investment

3. Monetary policy can have significant effects on short-run fluctuations in the economy but may not always meet long-term inflationary targets as experienced in 2020-1. Globally, central banks have _____

inflation target range: 2-3%; underlying and headline inflation; price shocks, global uncertainty.

4. Introduce the objectives of MP.

Since the early 1990s, the Reserve Bank has used an inflation target to achieve its monetary policy objectives.

The stability of the currency is a key objective of MP because _____

The stability of the currency is a key objective of MP but _____

The stability of the currency is a key objective of MP so _____

Worked examples:

The stability of the currency is a key objective of MP because it preserves the value, or purchasing power of money over time.

The stability of the currency is a key objective of MP but can conflict with another MP objective, full employment.

The stability of the currency is a key objective of MP so the RBA can work towards economic prosperity and welfare for Australians.

Describe Think about WHAT.

→ **What do the strategies look like or act like?**

→ **What is an example to demonstrate / illustrate these strategies?**

Monetary policy in Australia is determined by the Reserve Bank Board and is set in terms of a target for the cash rate. The first stage of transmission is about how changes to the cash rate influence other interest rates in the economy. The cash rate is the market interest rate for overnight loans between financial institutions, and it has a strong influence over other interest rates, such as deposit and lending rates for households and businesses.

Could add:

- An 'easing' of monetary policy
- A tightening in monetary policy
- Inflation expectations

Analyse Think about HOW.

Think about HOW.

- **How/why it is achieving its aim/goal?**
- **How/why is it working towards its intended or unintended effect/impact?**
- **How/why do the cause(s)/effects(s) occur?**
- **How/Why are the components related to each other and/or are interrelated, which may include comparison / contrast between them to understand their relationship to each other or the process as a whole itself?**

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

→ **How/Why are some or all features, characteristics or impacts more positive and/or negative than the others?**

[illegible]

→ **What is the value of the impact upon something or someone?**

[illegible]