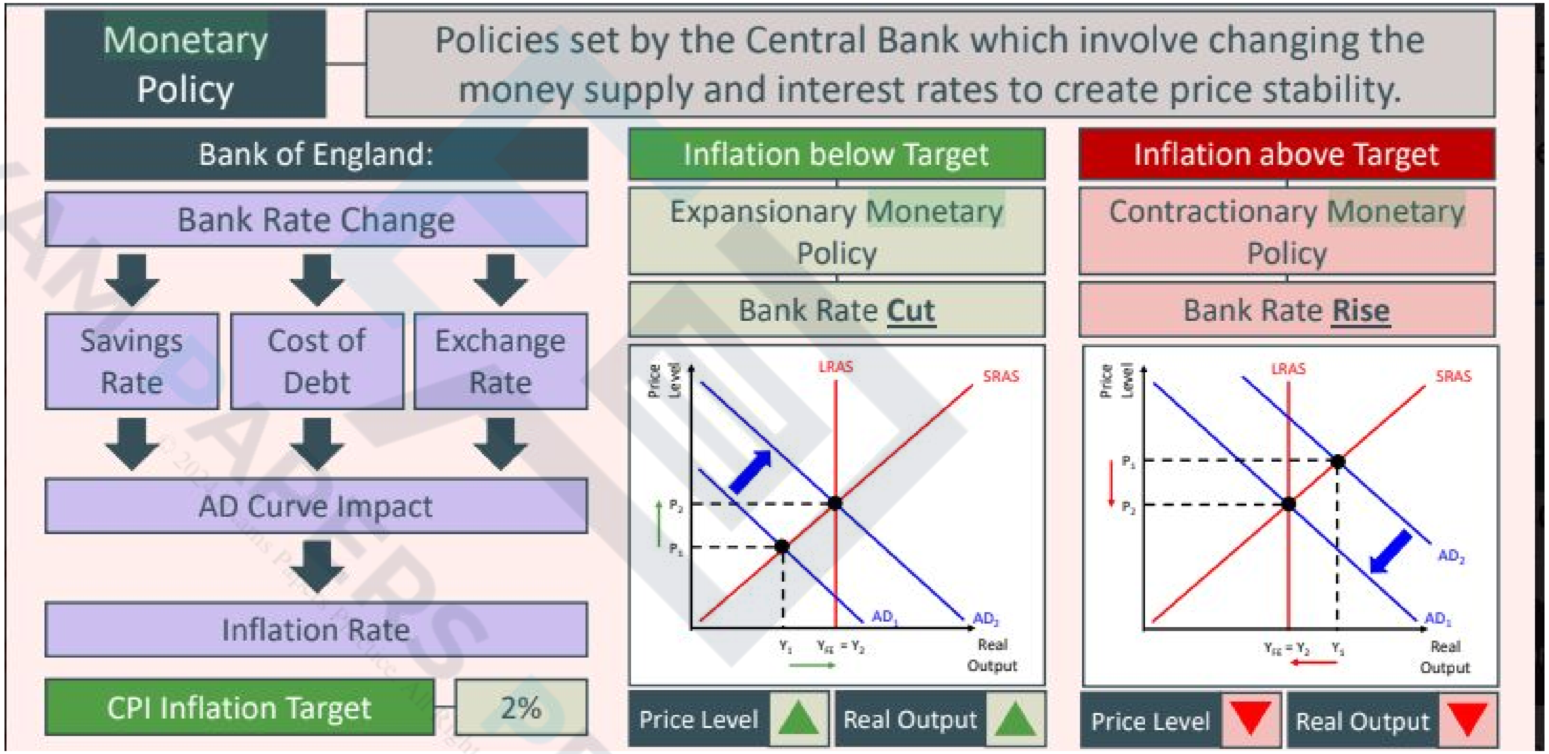
2.6.2 Demand Side - Monetary

If interest rates increase then (C)onsumption falls and (I)nvestment falls which causes AD to shift left. This causes the price level to fall and therefore inflation falls

If interest rates decrease then (C)onsumption falls and (I)nvestment rises which causes AD to shift right. This causes the price level to rise and therefore inflation rises

Interest rates 0.1% as at April 2020. Historical low

Quantitative Easing… When the government buys assets to increase the money supply. £645 billion in UK (as at Apr 2020)



Question (25):

Government policy Extract F (lines 14−17) states 'Investment forecasts are being revised downward and on top of speculation of interest rate rises and criticism of the UK's quantitative easing programme, the outlook is not looking as good as forecasts first indicated.'

Using the data in the extracts and your economic knowledge, evaluate the effectiveness of monetary policy in achieving macroeconomic stability in the UK.

https://www.bankofengland.co.uk/
https://pmt.physicsandmathstutor.com/download/Economics/A-level/Notes/Edexcel-A/Theme-2/Detailed/2.6.%20Macroeconomic%20Objectives%20and%20Policies.pdf
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