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Paper - III

Content of the Paper:-

Macro Economics

Module - 2

TOPIC:- ANALYSIS OF MONETARY
POLICY

Monetary Policy is basically concerned with the monetary system of the country. It deals with monetary decisions and measures and such non-monetary decisions and measures as have monetary effects. The essence of monetary policy is felt because money cannot manage itself. Monetary management is, therefore, the main issue of monetary policy.

Monetary Policy is usually defined as the central bank's policy pertaining to the control of the availability, cost and use of money and credit with the help of monetary measures in order to achieve specific goals. Prof. Wrightson remarks monetary policy as "the deliberate effort by the central bank to control the money supply and credit condition for the purpose of achieving certain broad economic objectives."

The central bank of a country, is the traditional agent which formulates and operates monetary policy with some needful objectives.

Objectives of Monetary Policy:-

The objective of monetary policy must be regarded as being part of the overall economic activities or objectives to be pursued by the government. Monetary policy should be directed to achieve different objectives, depending on the environment and the time factor. Monetary policy, being a part of public policy, is essentially

designed and directed to achieve different macroeconomic goals, depending on the basic problems and the nature of economy of the country from time to time. Following are the commonly considered objectives of monetary Policy for maintaining the Price stability and exchange stability as suggested by the Radcliffe Committee.

- (I) A high and stable level of employment.
- (II) Reasonable Price stability to maintain the identical value of money intact.
- (III) Steady economic growth and a high and growing level of income and the improvement in the nation's standards of living.
- (IV) A margin in the balance of Payments in order to contribute something to the economic development of the outside world.
- (V) A stable exchange rate and strengthening of foreign exchange reserves.

Besides above objectives of monetary Policy, however, change from time to time in relation to circumstances and economic considerations have been occurred. On that basis, following commonly accepted objectives can be analysed:-

- (a) Neutrality of money.
- (b) Exchange rate stability and equilibrium in the balance of Payments.
- (c) Price stability and Control of business cycles.
- (d) Full employment.
- (e) Economic growth.

Role of monetary Policy in a developing economy:

In a developing economy, the use of monetary policy in a successful manner is important to stimulate economic growth. In an underdeveloped or developing economy, the monetary policy has to play a vital role in developing the economy from a stage of primary backwardness to a stage of self-sustained growth. Under the growth-oriented monetary policy, monetary management by the central bank becomes a strategic factor of development in developing economy. Following are the roles of central bank which stimulates the economic development of developing country by adopting monetary policy:-

- (I) Credit planning and appropriate monetary management for economic planning.
- (II) Special attention in a country which seeks to bring about rapid economic growth with controlled inflation.
- (III) Proper creation, working and expansion of financial institutions.
- (IV) To develop the successful working monetary management.
- (V) To adopt most suitable interest rate structure.
- (VI) Use of proper public debt management system.
- (VII) To extend the process of monetisation for non-monetised sector of economy.