

MONETARY POLICY

SYNDICATE GROUP 10

Amitha

Bhanwar Lal Meena

Dinesh Gupta

Meet Kumar

Kanika Wadhawan

Karuppasamy

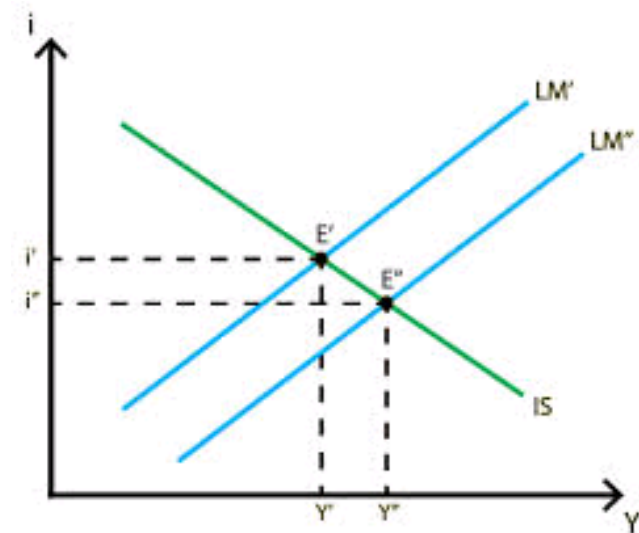
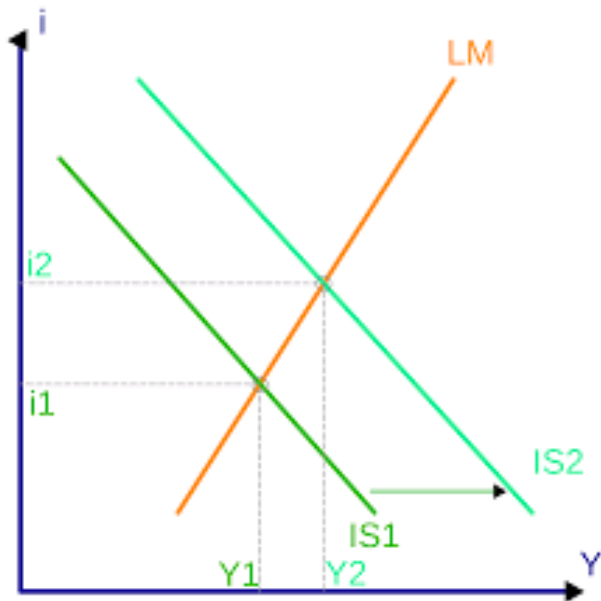
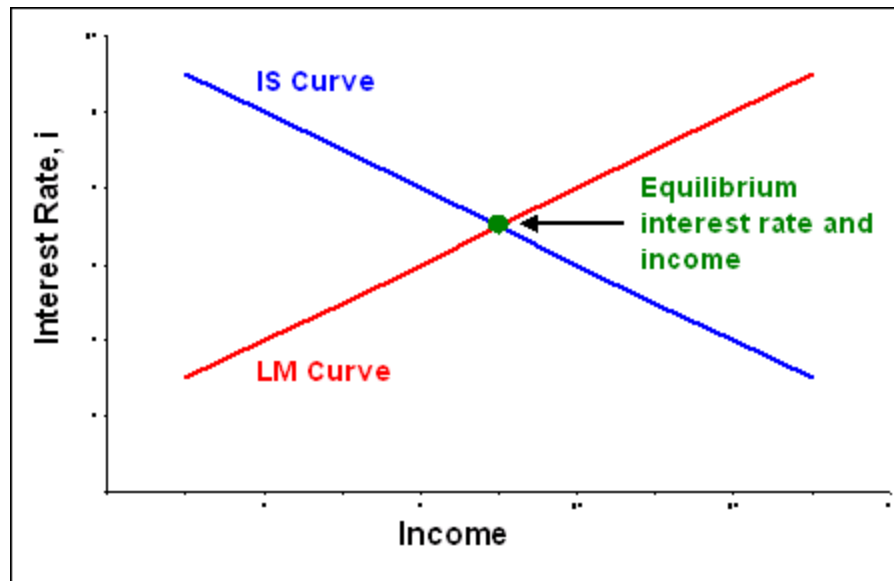
Pradip Bauri

Raghav Bhatt

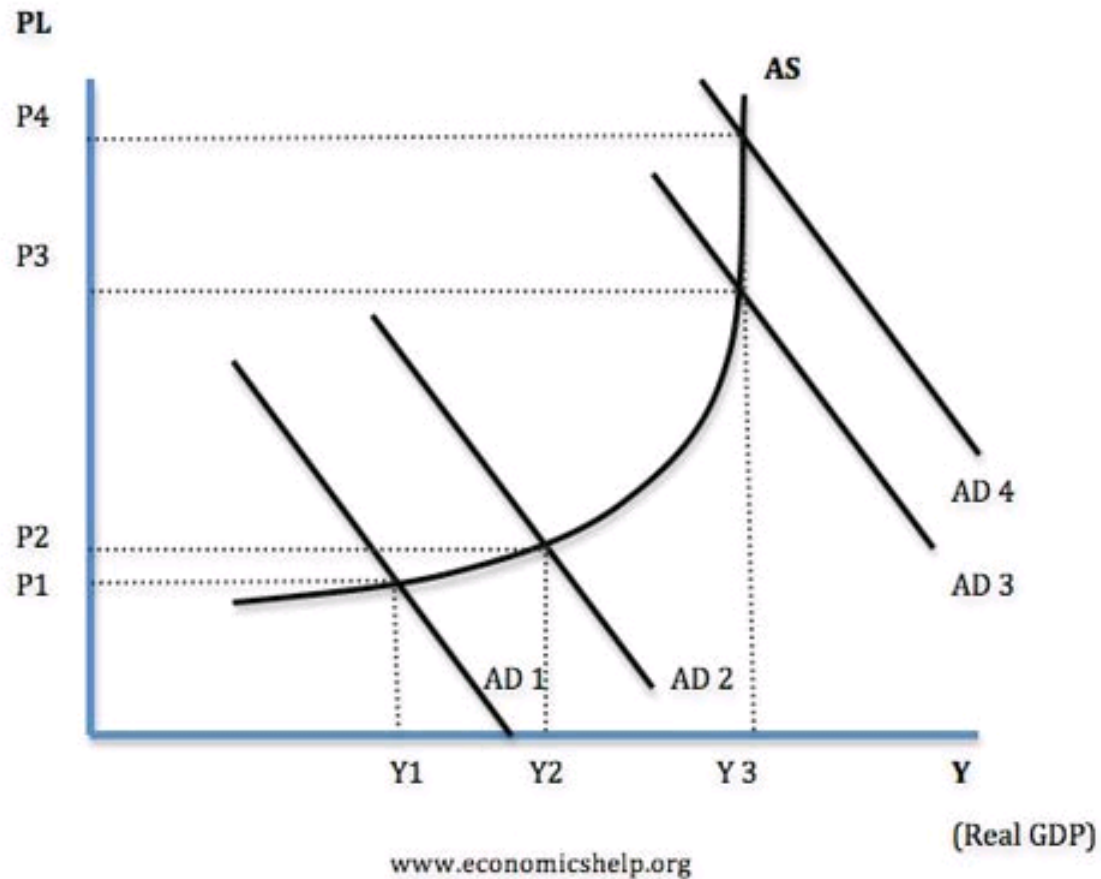
CONTENTS

- Fiscal versus monetary policy in stabilising the economy
- Monetary policy in India under increased globalisation.
- Inflation and its impact on the economy.

IS - LM Analysis: What happens to interest rates



AD - AS Analysis: Including Price in the picture



A Primer on Monetary Policy in India up to the early 2000s

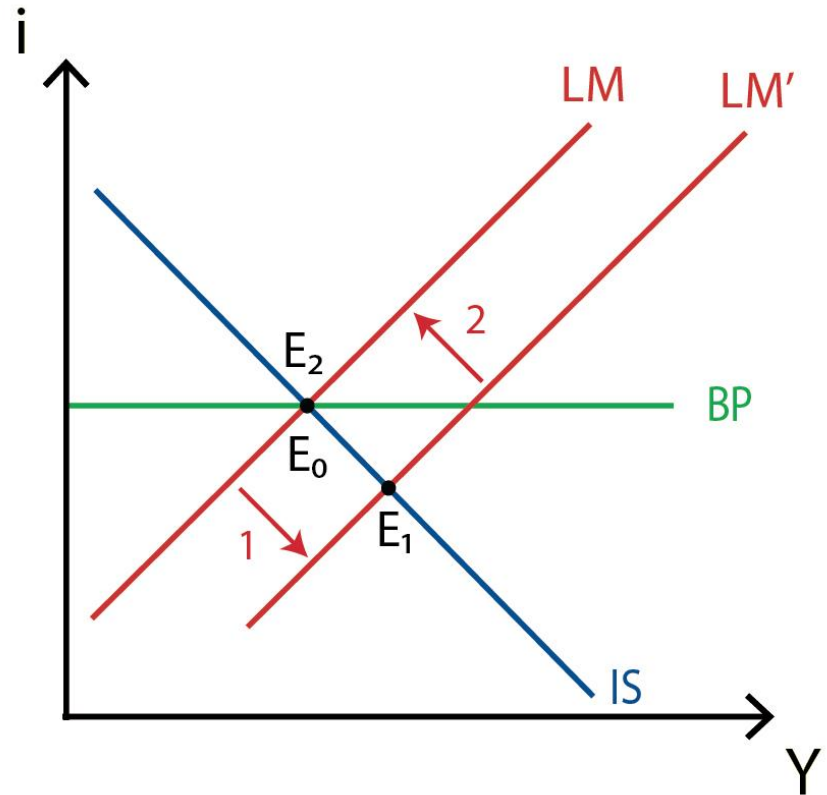
- Change in approach and framework – multiple indicators approach, control vs signalling, monetary transmission, financial markets
- Deregulation of interest rates
- Easing statutory pre-emptions
- Harmonizing fiscal policy – reforms in public debt management
- New markets, new instruments, new technology – LAF, MSS, MSF, OMOs
- Foreign exchange market

MONETARY POLICY UNDER INCREASED GLOBALISATION

- Impossible trinity

- Fixed Exchange Rate
- Free capital flows
- Independent monetary Policy

Global Recession
Taper Talk



MONETARY POLICY UNDER INCREASED GLOBALISATION contd...

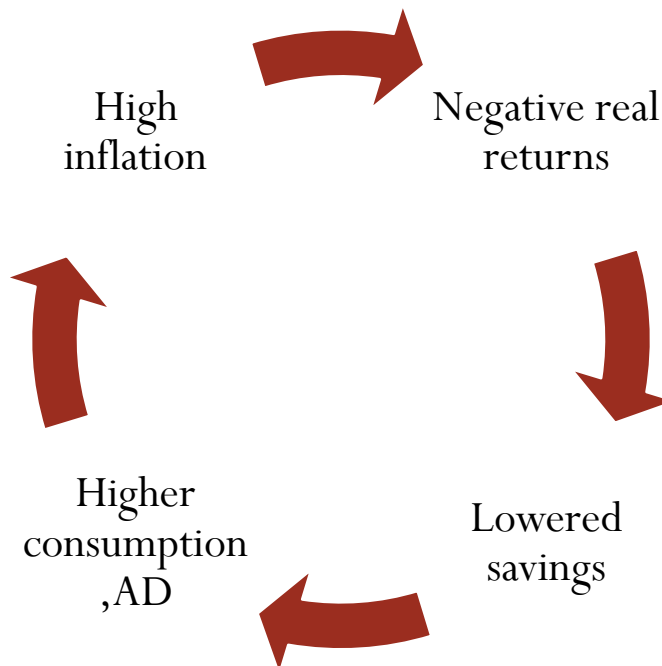
- Are global factors becoming important in driving inflation?
- Trade Flows
- China's rise as an economic power
- Oil Price shock
- Stagflation

INFLATION AND ITS IMPACT

- **Inflation** is the rise in the level of prices in an economy.
- **Re- inflation** is the rise in the rate of growth of prices in the economy.
- **Disinflation** is the decline in the rate of growth of prices in the economy.
- **Deflation** is the fall in the level of prices in an economy.

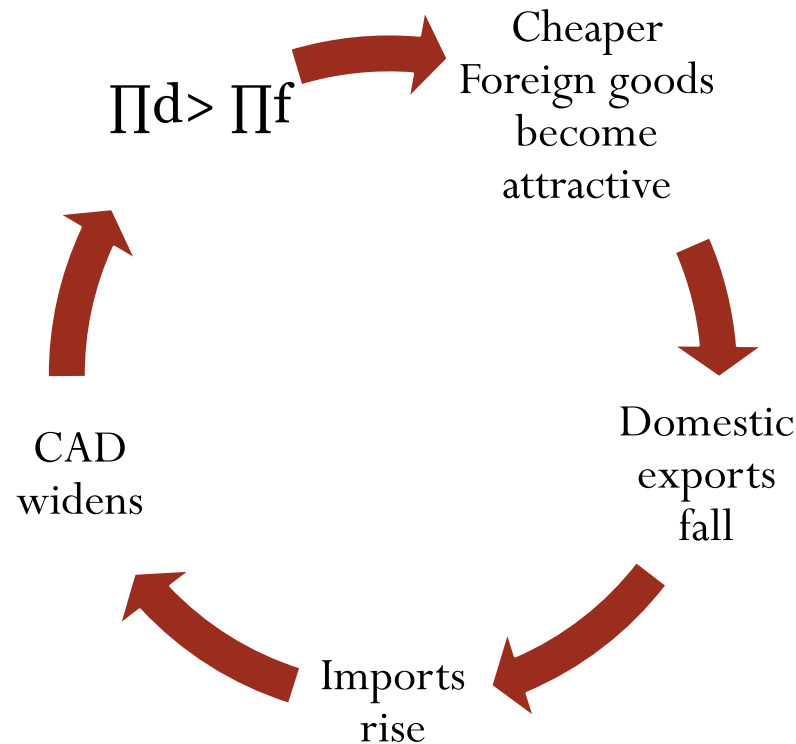
How does inflation impact us?

- Erosion of purchasing power
- Income redistribution – If Inflation driven by food prices, regressive.
- Adverse impact on savings



Real interest rate = Nominal interest rate - inflation

- Discourages future investment decisions due to uncertainty
- Inflation leads to BOP imbalance (assuming exchange rate is constant)



THANK YOU!