

Sample from week 11:

- Essentially, if the overall objective of economic policy is to slow the rate of economic growth, then the instruments of monetary policy can be used to raise interest rates, and thus restrict the availability of credit.
- On the other hand, if the objective is to stimulate economic growth, interest rates are lowered and credit becomes more readily available.

Ultimate objectives	Intermediate objectives
<ol style="list-style-type: none"> 1. Economic growth 2. Full employment 3. Relatively low inflation 	<ol style="list-style-type: none"> 1. Price of credit (interest rates) 2. Availability of credit (money supply)

- Using the monetary policy instruments (e.g. open market operations) → we will reach our intermediate targets (which is influencing the money supply and therefore the interest rate) and that will lead us to achieve our ultimate objectives

Explain how changes in interest rates affect different sectors of the economy

Interest rates

- Economists generally agree that changes in interest rates are likely to affect private investment spending to a far greater extent than consumer spending. Remember the dual nature of interest rates: they are a cost to the borrower and a return to the lender. These effects on household and business spending are outlined as follows.

Interest rates may have the following effects:

Household spending	Business spending
<ul style="list-style-type: none"> → Lower interest rates may induce some households to save less and borrow more, thus increasing consumption spending. → However, other households may have to increase their savings rate to offset the lower return from lower interest rates in order to reach goals such as paying for children's education or retirement 	<ul style="list-style-type: none"> → The impact of interest rates on business investment spending is easier to predict because of the clear relationship between interest rates and the investment decision. → Factories, office buildings and capital equipment are expensive, and the dollar cost of interest charges on funds borrowed to finance these projects is a

rate rose from 44% to 58.6%, male participation rate declined from 79% to 71% in Australia.

Cost and types of unemployment

The cost of unemployment can be identified in two categories

Costs to the economy	Costs to the individual
<ul style="list-style-type: none"> • Loss of gross domestic product (GDP). • Loss or deterioration of human capital—lengthy periods of unemployment can lead to a deterioration of employee skills when not used. • Retraining costs—skills deteriorated from prolonged unemployment, or skills no longer required by the economy, will need retraining. • Costs to the government—unemployment benefits drawing on the federal budget are reallocated from other programs in addition to the loss of tax revenue from individual income tax, company tax and GST. 	<ul style="list-style-type: none"> • Loss of income—a significant loss of income is experienced from becoming unemployed. Unemployment benefits do not suffice to compensate for this loss. Unemployment is one of the main causes of poverty. • Social costs—loss of skills equally affect the individual; becoming unemployed can also lead to despair and loss of self-esteem. • Unemployment has been attributed to family break-ups, health problems, mental illness, crime and political unrest.

Unemployment and the business cycle

- Unemployment is strongly related to the business cycle.
- Periods of expansion and boom in the economy often signal a rise in job opportunities, therefore seeing a fall in unemployment. Conversely, unemployment rates rise during, and soon after, economic contractions and recessions.

Types of unemployment

1. **Cyclical unemployment** → unemployment caused by a business cycle contradiction (lose their jobs because of a contraction or recession-also known as demand-deficient unemployment)
2. **Frictional unemployment** → Short-term unemployment arising from the process of matching workers with jobs.
3. **seasonal unemployment** → Unemployment due to factors such as weather, variations in tourism and other

Sample from week 9: