IGCSE ECONOMICS • EXERCISE SHEET

4.3 Monetary policy

Name: ____________ Class: ________ Date: __________ **Total: 15 marks**

KEY WORDS interest rate 利率 • central bank 中央银行 • money supply 货币供给 • monetary policy 货币政策 • invest 投资

Objective

Build the skills to answer exam questions on **monetary policy** 货币政策 — the **central bank** 中央银行 changing **interest rates** 利率, and how this affects spending, growth and inflation.

You must be able to:

- define monetary policy and the interest rate
- explain how higher and lower interest rates affect the economy
- analyse the use of monetary policy

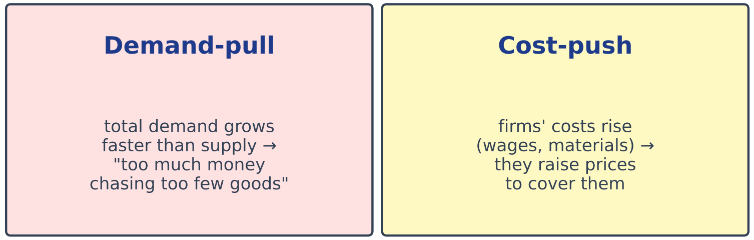
1 Worked examples

■ Interest rates

The interest rate is the cost of borrowing and the reward for saving

- **Monetary policy** 货币政策: the **central bank** 中央银行 changes the **interest rate** 利率.
- **Lower rates:** borrowing cheaper → more spending and **investment** 投资 → more growth and jobs (but maybe inflation).

- **Higher rates:** borrowing dearer → less spending → less inflation (but maybe more unemployment).



Exam: demand-pull = AD excess; cost-push = rising costs (wages, oil, imported inputs)

Monetary policy's main target is inflation — a rate rise cools demand-pull pressure

Answer shapes: K + App + An + Ev (a justified judgement, for discuss questions).

2 Practice

2.1 Define the term *monetary policy*. [2]

2.2 State the effect of a **fall** in interest rates on consumer spending. [1]

2.3 State who sets the interest rate in an economy. [1]

3 Exam-style questions

3.1 To reduce inflation, a central bank should: [1]

A lower interest rates
B raise interest rates
C raise government spending
D cut income tax

3.2 Explain how a rise in interest rates could reduce inflation. [4]

3.3 Analyse the effects on an economy of a large cut in interest rates. [6]