

Monetary Policy and Its Influence on Economic Stability

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ABSTRACT

For the purpose of preventing financial crises, this entails dealing with systemic risks, maintaining adequate capital buffers, and monitoring and regulating the banking industry. Businesses can be encouraged to invest, innovate, and grow by, for instance, offering tax credits for research and development expenses or lowering corporate tax rates. Both productivity and economic growth may benefit from these measures. Measures to streamline regulations, reduce bureaucratic obstacles, encourage entrepreneurship, and invest in education and skill development are examples of these reforms. The primary method of the data collection process is performed to make better observations of the scenario. SPSS has been done in the section of results and discussion based on the dataset made on the questionnaires that were made during the survey. As innovation keeps on advancing, national banks ought to adjust and investigate the utilization of inventive apparatuses, like computerized monetary standards or blockchain innovation, to upgrade the productivity and viability of money-related approach execution. Continuous research and evaluation should be conducted on monetary policy frameworks. National banks ought to dissect the effect of their arrangements, gain from previous encounters, and stay open to embracing new ways to deal with addressing arising difficulties. Monetary policy tools like lowering interest rates may have little effect on boosting economic growth when interest rates are low. In this scenario, fiscal policy becomes an essential instrument for increasing investment and aggregate demand. States can increment public spending on foundation projects, training, medical care, or other useful areas to make occupations, increment buyer spending, and support private speculation.

Keywords: Inflation, Low-interest rate, Monetary Policy, Tax, Economy, Policy framework, Bank

INTRODUCTION

This assignment is based on the evaluation of monetary policies and their influence on the stability of the economy. Monetary policy tools like lowering interest rates may have little effect on boosting economic growth when interest rates are low. In this scenario, fiscal policy becomes an essential instrument for increasing investment and aggregate demand. The economy is affected by more than just monetary policy alone. Monetary strategy, the public authority's spending and tax collection, the worldwide economy's state, innovative progressions, and international occasions are among these elements. The primary method of the data collection process is performed to make better observations of the scenario. SPSS has been done in the section of results and discussion based on the dataset made on the questionnaires that were made during the survey. Recommendations have been made after observing the result of the survey. Lastly, a conclusion has been made and the future scope of the several types of monetary policies is highlighted.

LITERATURE REVIEW

According to Powell, 2019, in the United States, the primary financial arrangement is the Federal Reserve or central bank. The financial agreement, which involves controlling loan fees and the cash supply to accomplish specific monetary objectives, is one of the essential instruments by which the Fed applies impact over the economy. The primary objective of the central bank's cash-related strategy is to advance cost strength and long-term financial growth. The Federal Reserve's essential vehicle for driving cash-related game plans is open market exercises like exchanging government securities on the open market (Powell, 2019). When the Fed wants to boost the economy, it can lower interest rates and increase the money supply by purchasing government securities. This supports purchasing and spending, which might make it more straightforward to move cash around and find a new line of work. When the Fed needs to cool an overheating economy or

maintain control, it can, on the other hand, provide government assurances to raise funding costs and reduce the money supply. Getting more expensive due to higher credit costs can reduce spending and experience, thereby constraining the economy. The economy is affected by more than just monetary policy alone. Monetary strategy — the public authority's spending and tax collection — the worldwide economy's state, innovative progressions, and international occasions are among these elements. It is possible that it is attempting to determine the precise effects that the Federal Reserve's activities have on monetary security because these elements can communicate with activities related to financial strategy [*Referred to Appendix 2*].

According to Coibion, et al. 2019, communication about monetary policy has a significant impact on expectations and economic behavior, including household inflation. The point when national banks impart their arrangement choices, goals, and future activities plainly and actually, it can affect how families see and expect expansion, which thus can impact their spending and saving choices. Central banks frequently provide forward guidance by disseminating their anticipated policy actions or interest rate paths in the future. Assuming families accept that the national bank will fix or relax money-related strategy, later on, it can impact their assumptions regarding expansion. As an example, assuming a national bank demonstrates that it intends to raise loan costs to check inflationary tensions, families might expect lower future expansion and change their way of behaving as needs be, like decreasing spending or deferring massive buys. For households to comprehend the goals and justifications behind policy decisions, central bank communications must be clear and transparent (Coibion, et al. 2019). Households are able to form more accurate expectations regarding future inflation when central banks effectively communicate their inflation targets, policy frameworks, and the factors that influence their decisions. In addition to reducing uncertainty and promoting stability in financial markets, clear communication can indirectly impact household inflation expectations. The believability and reliability of national banks are fundamental for powerful money-related approach interchanges. A central bank's credibility and trustworthiness in achieving its inflation goals are more likely to influence consumers' inflation expectations. On the other hand, if households believe that communications from the central bank lack credibility or consistency, this can increase uncertainty and possibly affect their inflation expectations and behavior.

According to Furman, and Summers, 2019, in an era of low interest rates, it is essential to reevaluate fiscal policies in order to effectively manage government finances and stimulate economic growth. States can increment public spending on foundation projects, training, medical care, or other useful areas to make occupations, increment buyer spending, and support private speculation. Governments can make investments in infrastructure projects thanks to low-interest rates. Framework ventures make occupations in the present moment and upgrade efficiency and seriousness over the long haul. State-run administrations can subsidize foundation projects by acquiring at low loan fees, exploiting ideal supporting circumstances. States might consider carrying out charge arrangements that boost private speculation and invigorate financial movement (Furman, and Summers, 2019). Businesses can be encouraged to invest, innovate, and grow by, for instance, offering tax credits for research and development expenses or lowering corporate tax rates. Both productivity and economic growth may benefit from these measures. Measures to streamline regulations, reduce bureaucratic obstacles, encourage entrepreneurship, and invest in education and skill development are examples of these reforms (Disemadi, and Shaleh, 2019). Regardless of interest rate conditions, such reforms have the potential to increase the economy's resilience and competitiveness.

MATERIALS AND METHODOLOGY

There are 2 types of research design that are followed while performing any research. In this research, the quantitative type of research design will be followed. To perform this research based on this topic, a quantitative type of research design is helpful. This type of research design is based on numerical data. A through-out plan is required for conducting quantitative research design (Bernanke, 2019). This research design is extensively used in sociologies, humanities, brain research, and in training. On the other hand, qualitative research design mainly depends on non-numerical data such as text, video, or audio (Kalemli-Özcan, 2019). There is so much flexibility in using qualitative research design. The primary field in which this type of research design is used is health science, history, anthropology, and sociology. So, to perform this type of research quantitative type of research philosophy is more convenient rather than a qualitative research design. For performing this research, the primary method of data collection has been followed. In the primary method, SPSS is performed based on the dataset that is created by analyzing questionnaires that are made during the survey (Bräuning, and Ivashina, 2019). On the other hand, secondary data collection is mainly based on the existing data available in libraries, journals, articles, and the internet (Loayza, and Pennings, 2019). These data have been already used by other researchers in their work. That's why the method of primary data collection is more authentic and accurate in this research. While the deductive approach can be used to test existing hypotheses or theories, the inductive approach can be used to generate new concepts and theories regarding risk management and industry stakeholders. Inductive research entails gathering and analyzing data in order to generate novel hypotheses and concepts. Observation, interview, survey, or case study data are

typically gathered, and patterns, themes, or new theories are uncovered through data analysis in this approach (Chishti, *et al.* 2019). Deductive approaches can be helpful in gaining a better understanding of the risks and benefits of monetary policies (Dwyer, 2019). The research question and the available data will influence the approach chosen. In this exploration, a fundamentally logical examination approach has been followed.

RESULTS AND DISCUSSION

Q1. What is your Age?

N	Valid	63
	Missing	0
Mean		1.87
Std. Error of Mean		.102
Median		1.83 ^a
Mode		1
Std. Deviation		.813
Variance		.661
Skewness		.240
Std. Error of Skewness		.302
Kurtosis		-1.445
Std. Error of Kurtosis		.595
Range		2
Minimum		1
Maximum		3
Sum		118
Percentiles	10	. ^{b,c}
	20	1.00
	25	1.14
	30	1.28
	40	1.55
	50	1.83
	60	2.12
	70	2.45
	75	2.62
	80	2.78
	90	.

Figure 1: Descriptive on age
 (Source: Self-created in SPSS)

In the above figure, the result of the standard deviation is 0.813.

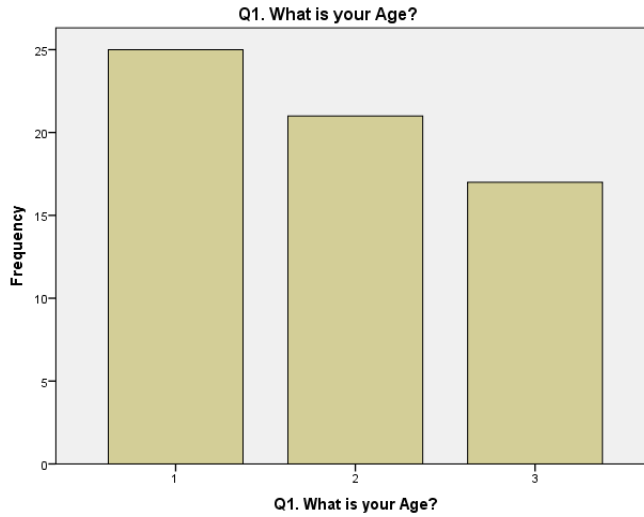


Figure 2: Graph of Descriptive of Age
 (Source: Self-created in SPSS)

The people having the age group of 15-35 show high frequency in comparison to the other age group [Referred to Appendix 1].

Q2. What is your Gender?

N	Valid	62
	Missing	1
Mean		1.35
Std. Error of Mean		.061
Median		1.35 ^a
Mode		1
Std. Deviation		.482
Variance		.233
Skewness		.622
Std. Error of Skewness		.304
Kurtosis		-1.668
Std. Error of Kurtosis		.599
Range		1
Minimum		1
Maximum		2
Sum		84
Percentiles	10	. ^{b,c}
	20	.
	25	.
	30	.
	40	1.15
	50	1.35
	60	1.55
	70	1.75
	75	1.85
	80	1.95
	90	.

Figure 3: Descriptive of Gender
 (Source: Self-created in SPSS)

The result of the standard deviation in the above figure is 0.482.

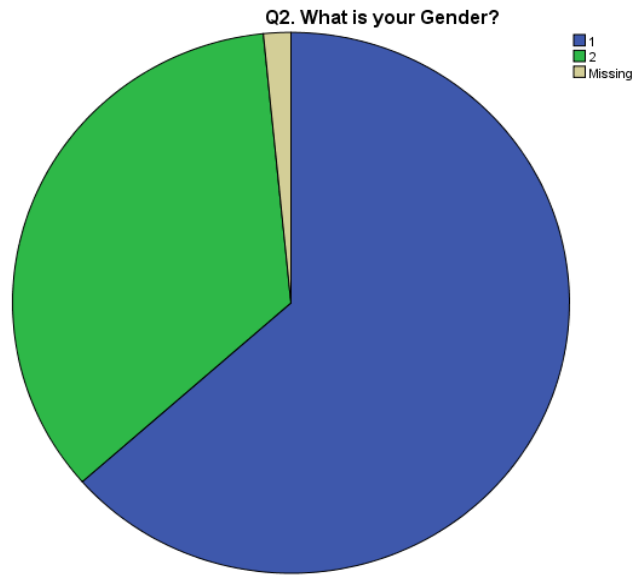


Figure 4: Graph of Gender
 (Source: Self-created in SPSS)

The number of male participants is 40 and female participants are 21.

N	Valid	63
	Missing	0
Mean		1.67
Std. Error of Mean		.106
Median		1.56 ^a
Mode		1
Std. Deviation		.842
Variance		.710
Skewness		.706
Std. Error of Skewness		.302
Kurtosis		-1.222
Std. Error of Kurtosis		.595
Range		2
Minimum		1
Maximum		3
Sum		105
Percentiles	10	. ^{b,c}
	20	.
	25	.
	30	1.04
	40	1.30
	50	1.56
	60	1.82
	70	2.16
	75	2.39
	80	2.62
	90	.

Figure 5: Descriptive of awareness about monetary policies
 (Source: Self-created in SPSS)

The result of the standard deviation is 0.842.

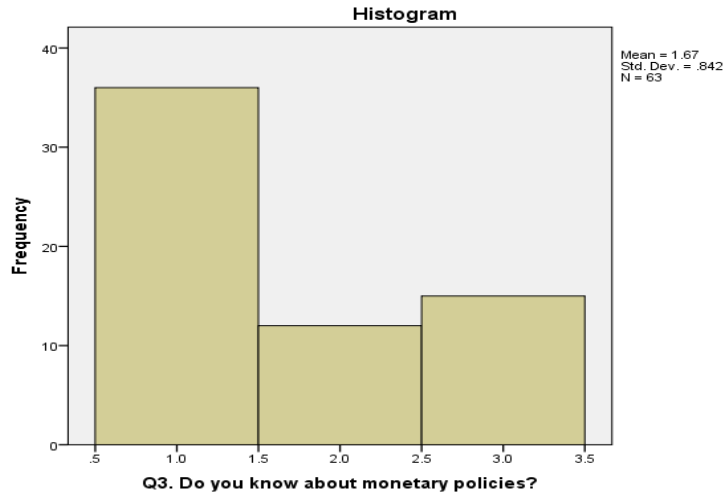


Figure 6: Graph on awareness about monetary policies
 (Source: Self-created in SPSS)

The positive response from the participants is 36 and the negative response is 11.

N	Valid	61
	Missing	2
Mean		1.77
Std. Error of Mean		.108
Median		1.69 ^a
Mode		1
Std. Deviation		.844
Variance		.713
Skewness		.463
Std. Error of Skewness		.306
Kurtosis		-1.447
Std. Error of Kurtosis		.604
Range		2
Minimum		1
Maximum		3
Sum		108
Percentiles	10	. ^{b,c}
	20	.
	25	1.01
	30	1.15
	40	1.42
	50	1.69
	60	1.96
	70	2.34
	75	2.53
	80	2.73
	90	.

Figure 7: Descriptive about the impact of monetary policies on the economy
 (Source: Self-created in SPSS)

The result of the mode is 1 and the standard deviation is 0.844.

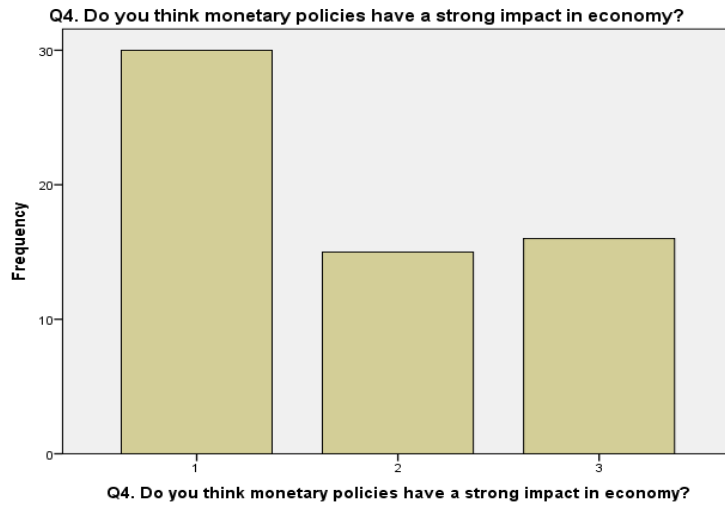


Figure 7: Graph about the impact of monetary policies on the economy
 (Source: Self-created in SPSS)

The positive response from the participants is 30 and the negative response is 15.

Effect on the stability of economy :

N	Valid	61
	Missing	2
Mean		1.33
Std. Error of Mean		.061
Median		1.33 ^a
Mode		1
Std. Deviation		.473
Variance		.224
Skewness		.752
Std. Error of Skewness		.306
Kurtosis		-1.484
Std. Error of Kurtosis		.604
Range		1
Minimum		1
Maximum		2
Sum		81
Percentiles	10	. ^{b, c}
	20	.
	25	.
	30	.
	40	1.13
	50	1.33
	60	1.53
	70	1.73
	75	1.83
	80	1.93
	90	

Figure 8: Descriptive about percentage effect of monetary policies
 (Source: Self-created in SPSS)

The result of the standard deviation is 0.473.

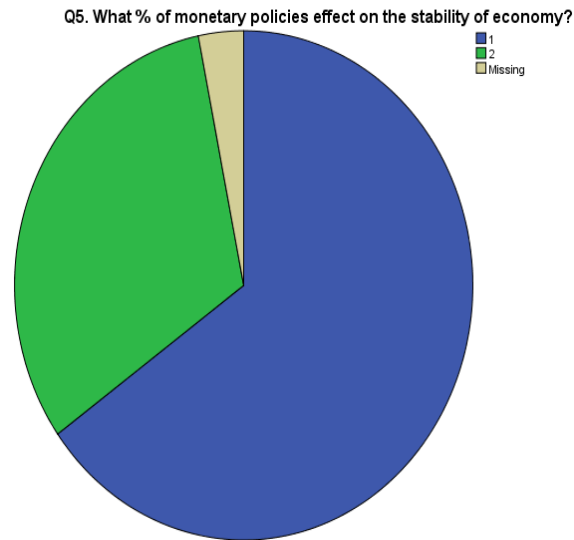


Figure 9: Graph about the percentage effect of monetary policies
 (Source: Self-created in SPSS)

The response from 50% of participants is 41.

N	Valid	63
	Missing	0
Mean		1.95
Std. Error of Mean		.097
Median		1.93 ^a
Mode		2
Std. Deviation		.771
Variance		.594
Skewness		.083
Std. Error of Skewness		.302
Kurtosis		-1.294
Std. Error of Kurtosis		.595
Range		2
Minimum		1
Maximum		3
Sum		123
Percentiles	10	. ^{b,c}
	20	1.11
	25	1.25
	30	1.39
	40	1.66
	50	1.93
	60	2.22
	70	2.52
	75	2.66
	80	2.81
	90	.

Figure 10: Descriptive of the effect on the economy of the changes in the money supply
 (Source: Self-created in SPSS)

The result of the standard deviation is 0.771.

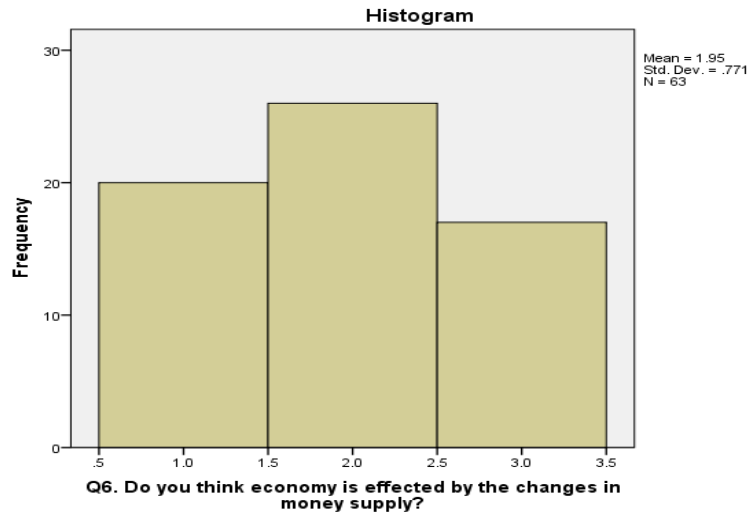


Figure 11: Graph of the effect on the economy of the changes in the money supply
 (Source: Self-created in SPSS)

The positive response from the participants is 20 and the negative response is 25.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.809 ^a	.654	.648	.479

a. Predictors: (Constant), Q2. What is your Gender?

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.955	1	25.955	113.351	.000 ^b
	Residual	13.739	60	.229		
	Total	39.694	61			

a. Dependent Variable: Q1. What is your Age?

b. Predictors: (Constant), Q2. What is your Gender?

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.023	.182		.125	.901
	Q2. What is your Gender?	1.352	.127	.809	10.647	.000

a. Dependent Variable: Q1. What is your Age?

Figure 12: Regression analysis on Age and Gender
 (Source: Self-created in SPSS)

The value of F in Anova is 113.351. In Coefficient, the value of standard error is 0.182 and value of Beta is 0.809. The value of R square is 0.648.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908 ^a	.825	.822	.346

a. Predictors: (Constant), Q4. Do you think monetary policies have a strong impact in economy?

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.255	1	33.255	277.426	.000 ^b
	Residual	7.072	59	.120		
	Total	40.328	60			

a. Dependent Variable: Q3. Do you know about monetary policies?

b. Predictors: (Constant), Q4. Do you think monetary policies have a strong impact in economy?

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.062	.104		.599	.552
	Q4. Do you think monetary policies have a strong impact in economy?	.882	.053	.908	16.656	.000

a. Dependent Variable: Q3. Do you know about monetary policies?

Figure 13: Regression analysis on monetary policy and its impact on the economy
 (Source: Self-created in SPSS)

The value of F in Anova is 277.426. In Coefficient, the value of standard error is 0.104 and value of Beta is 0.908. The value of R square is 0.822.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772 ^a	.595	.589	.304

a. Predictors: (Constant), Q6. Do you think economy is effected by the changes in money supply?

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.004	1	8.004	86.836	.000 ^b
	Residual	5.438	59	.092		
	Total	13.443	60			

a. Dependent Variable: Q5. What % of monetary policies effect on the stability of economy?

b. Predictors: (Constant), Q6. Do you think economy is effected by the changes in money supply?

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.405	.106		3.809	.000
	Q6. Do you think economy is effected by the changes in money supply?	.481	.052	.772	9.319	.000

a. Dependent Variable: Q5. What % of monetary policies effect on the stability of economy?

Figure 14: Regression analysis on effect of the changes of monetary policy
 (Source: Self-created in SPSS)

The value of F in Anova is 86.836. In Coefficient, the value of standard error is 0.106 and value of Beta is 0.772. The value of R square is 0.589.

CONCLUSION AND FUTURE SCOPE

Money-related strategies ought to consolidate measures pointed toward keeping up with monetary solidness. National banks might have to mediate in foreign trade markets to oversee swapping scale variances, particularly in economies where a steady conversion standard is vital for exchange and speculation. Excessive intervention that could result in economic distortions or risks must be avoided with caution. In an interconnected world, worldwide coordination among national banks is essential. Financial regulation, exchange rate stability, and monetary policy cooperation can all contribute to preventing spillover effects and promoting global economic stability.

RECOMMENDATIONS

Monetary policy should continue to be flexible, allowing for adjustments in response to economic indicators (Rostagno, *et al.* 2019). In the face of shifting economic circumstances, this adaptability contributes to maintaining stability (Caldara, and Herbst, 2019). Effective monitoring and regulation of non-bank financial institutions is essential given their growing importance. This incorporates shadow banking exercises, fintech firms, and computerized monetary standards to forestall likely dangers to monetary dependability. In order to guarantee that monetary and fiscal policies are in line with one another and support one another's goals, governments, and central banks ought to collaborate with one another.

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Appendices
Appendix 1: Questionnaire
Number of Participant: 61

Q1. What is your Age?

15-35	25
35-65	20
65-100	16

Q2. What is your Gender?

Male	40
Female	21

Q3. Do you know about monetary policies?

Yes	36
No	11
Not answered	14

Q4. Do you think monetary policies have a strong impact in economy?

Agree	30
Disagree	15
Neutral	16

Q5. What % of monetary policies effect on the stability of economy?

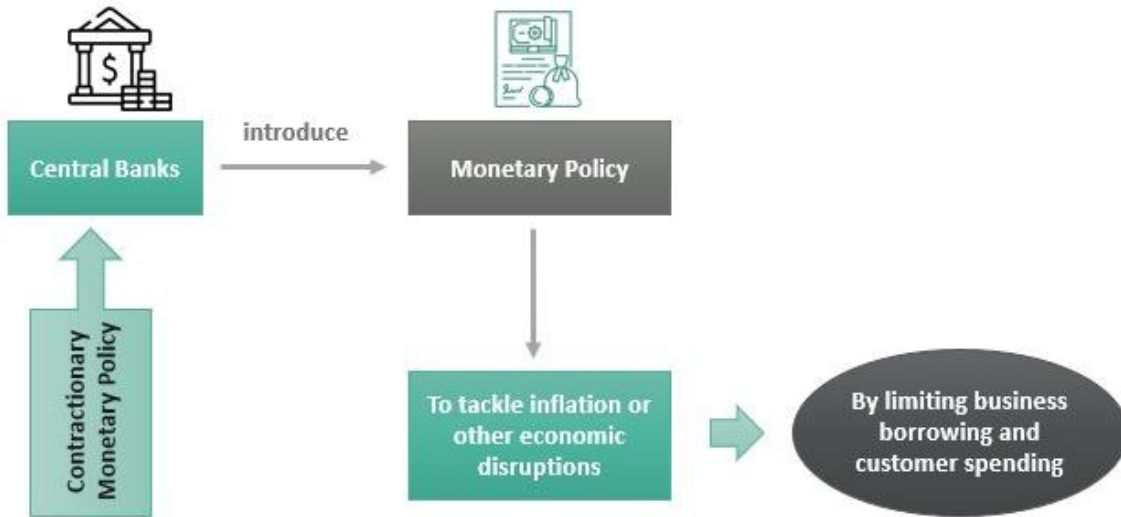
0-50%	41
51-100%	20

Q6. Do you think economy is effected by the changes in money supply?

Agree	20
Disagree	25
Neutral	16

(Source: Self-created in Ms. Word)

Appendix 2: Effect of Monetary Policy



(Source: Wallstreetmojo.com)