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Australia's Macroeconomic Policy

Monetary policy also referred to as cash rate, refers to one of the processes through which government institutions in a market economy regularly exercise influence on the direction and speed of economic activity within a country. Many countries across the world undertake this macroeconomic policy function through their central banks in the exploitation of particular claims against it, thus enabling all economic players (e.g.–individuals, businesses, and banks) conduct daily transactions, hence significantly influencing a country's economic direction. Among the functions of monetary policy is the setting of loan interest rates within the money market, and as a result, used as crucial influence factor on the economic activities, inflation rates, prevailing interest rates, and the activities of all financial players (both borrowers and lenders) in a dynamic economic environment. The Reserve Bank of Australia has the mandate of setting and maintaining the monetary policy. The key determinants of this system require the fulfillment of fundamental issues including price stability, maximum citizenry welfare, employment rates, and economic prosperity goals.

The Australian economy has experienced consistent progress due to constant strong performance premised on the country's unlocking of investment and improvements in boosting business confidence. As a result, the economy has remained robust even in the wake of imperfect financial markets and economic meltdown across the globe. Inflation has been controlled, interest rates kept low, and there has been a significant rise in employment rates,

which has resulted in an improved business environment, further boosted by the government's infrastructure spending. However, the increased demand for Australian products and services because of this favorable business operational environment has resulted in the Australian dollar appreciating in value. This has had adverse effects on the economy, particularly because of its status as an export-based economy, because exports become relatively more expensive than imported goods. As a result, the strengthening of the Australian dollar has led to exchange rates across all sectors related to trade increasing, thus affecting financial and real equilibrium applicable to all areas of the economy, a primary function of the exchange rate. Economic shocks are caused by high exchange rates which end up affecting macroeconomic stability because smaller economies have currencies depreciate due to weak economic performance and increased unemployment rates. Moreover, rising exchange rates strain domestic rates of foreign markets, triggering capital outflows.

Additionally, if monetary policy is not conducted in a manner incompatible with the elements of free trade in asset markets and high leverage on financial intermediation systems, efforts to achieve price stability, reduce inflation, or attain maximum sustainable employment may end up futile. Resolving any incompatibility necessitates making significant changes to either affected elements simultaneously. Serious fundamental mistakes can occur upon deciding to attain low-level short-term interest rates, which are accompanied by asset purchases in large scale, and are detrimental to weaker economies. In particular, adopting policies to lower interest rates may result in more inflationary pressures across the economy.

Solving this challenge could require tightened fiscal policy, through which government taxation and spending is constrained, where the government spends only that which is in its balance of payments. Austerity measures are adopted in the process, aimed at reducing the state's structural deficit by using economic stabilizers based on the debt cycle. With the contraction of the economy, the deficit will decrease, spending on unemployment

will increase, and vice-versa. In Australia, an increase in tax or reduction in the government spending results in a dampening economic effect in reducing inflation (Garton, Danial &Rhett 42). On the other hand, increased government recurrent and capital expenditure, coupled with tax cut deficits might evolve multiple macroeconomic effects, and thus the dollar value must constantly be monitored to ensure that it is consistent with macroeconomic stability.

Australia's macroeconomic stability from various economic shocks can be attained by a combination of flexible monetary policy and a floating exchange rate, specifically targeting inflation. The adopted monetary policy rules are determined by inflation target models (Giuseppe 33), and thus entirely avoid this particular challenge. This requires that these models wholly consider inflation rather than inflation on just the goods circulating through the economy.

Simple Keynesian models could be adopted, and designed in such a manner that they can easily predict looming economic crises. Moreover, they should be provided credibility and adequacy to measure the specific elements in question, although they may not explicitly highlight mechanisms of formal labor market friction representation and their accommodation in entirety. However, improved, new models could be utilized for analyzing effective monetary policy. Finalization of the Trans-Pacific Partnership agreement provided for allowance of free regional trade between Australia and other countries, and will immensely contribute to the creation of employment opportunities for the Australian population. Demand for Australian goods will be reduced, investors will be encouraged into the country, and access to new market opportunities will be enhanced as a result of this agreement (Schott et al. 16).

Works Cited

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