

MACROECONOMICS AT WORK EXERCISE

MACROECONOMIC CONDITIONS AND CENTRAL BANK POLICY

REFERENCE: C. Adam and S. Holmes, 'Slowdown healthy, says RBA', *The Courier-Mail*, 15 June 2005, p. 29.

CHAPTERS RELEVANT TO THIS EXERCISE:

6, 11 and 16

CONTEXT

The Reserve Bank seeks to regulate the economy so that overall economic activity is maintained at a level that ensures full use is made of available resources (in the case of the resource labour so that there is 'full employment') but without this being excessive in terms of the available supply so that pressure is put on prices (i.e. at the same time avoiding inflation). It does this by controlling the level of interest rates because these influence the different components of aggregate demand and hence the general level of economic activity.

This article refers to the circumstances which are currently influencing the Reserve Bank in the exercise of these powers, as analysed in a recent address by the Governor of the Bank.

QUESTIONS

1. What is meant by the reference to a 'slowdown'?
2. Why is the slowdown considered 'healthy'?
3. Explain the reference in the RBA Governor's speech to 'other potential outcomes'.
4. What is meant by the RBA's continuing 'bias to raise rates'?
5. What are the reasons for the on going 'alertness' of the RBA to demand pressures?

6. Explain the reference (towards the end of the article) to 'household consolidation' and explain how this may influence Reserve Bank analysis and action.