Perpetual knowledge bank series: monetary stimulus

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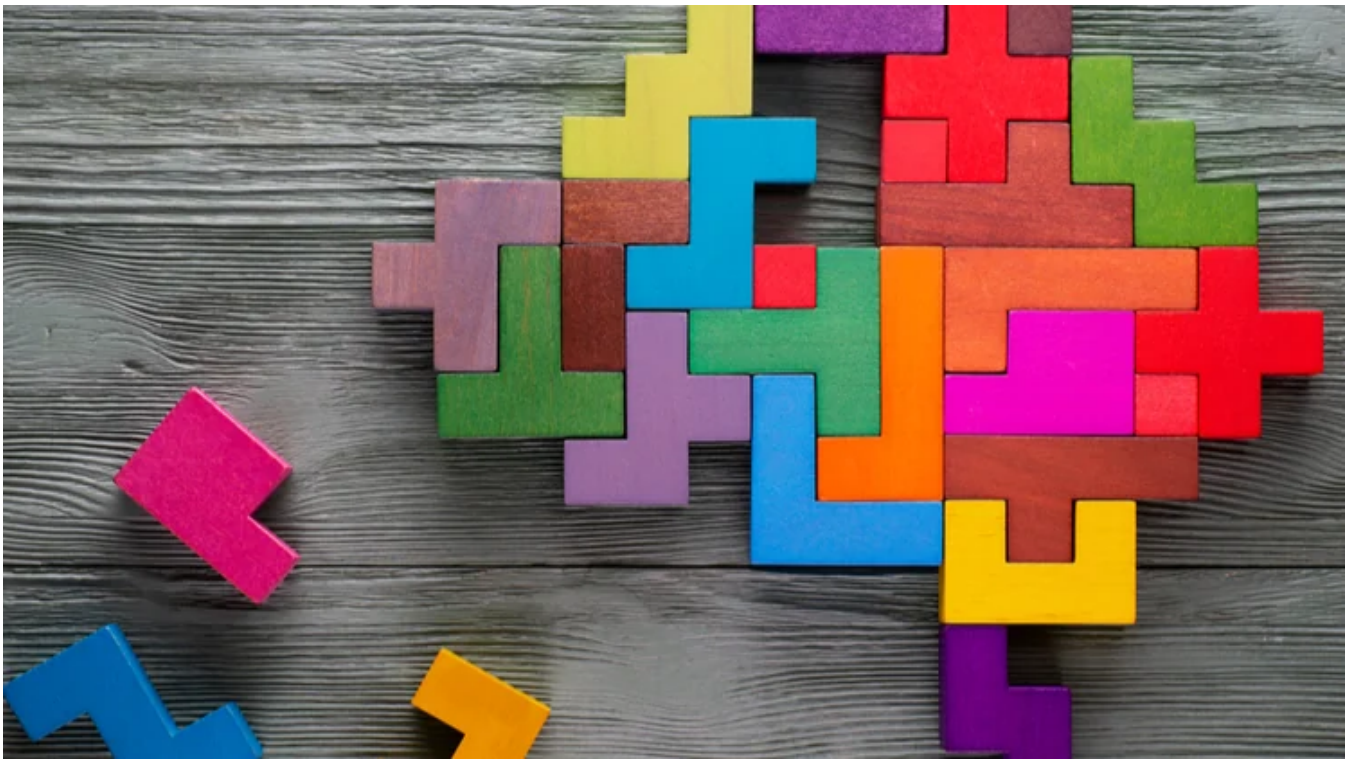

Monetary stimulus describes the actions taken to manage an economy's money supply. Usually this involves a government or central bank trying to increase the total amount of money in the economy and decreasing the cost of accessing it. Together with fiscal stimulus,

monetary stimulus is considered the most widely recognised macroeconomic tool used to manage or influence a nation's economic activity.

Monetary policy can be used to stimulate an economy in a variety of ways, but it usually managed by a central bank via interest rates, the supply of money in circulation and the ease with which consumers and businesses can access cash and loans. The traditional way of adding new money into an economy is by making lending cheaper and easier by reducing interest rates. As rates go down, more people and businesses can afford to borrow money. While the primary tool of monetary stimulus is interest rates, in recent times central banks have also been more willing to inject additional cash into the economy. This is usually done by large bond purchases, which encourage banks to lend and businesses to spend more freely.

For our *Knowledge Bank Series* article on how effective fiscal stimulus should deliver a government “bang for their buck” by generating the largest economic boost possible for the smallest cost to the taxpayer, click here.

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