Impact of monetary policy on the business environment

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**Monetary Policy:**

It is the process to control the supply of money to maintain the inflation rate and interest rate. It is controlled by monetary authority often central or state bank of the country.

**The instrument of Monetary Policy:**

They are classified into the qualitative and quantitative method.

1. Quantitative Methods: These methods affect the entire credit market in the same flow. It does not include credit control still due to the same direction effect, its impact is uniform on all the economic sectors. The quantitative methods include:

* Open market Operations
* Cash Reserve Ratio
* Bank/Discount Rate

1. Qualitative Methods: These methods work on the objective of credit control which quantitative methods do not take into account. These methods help in directing the flow of credit from one sector to other, also control the speculation tendency based on the bank credit availability. It includes:

* Moral Suasion
* Credit Rationing
* Lending Margins change

**Impact of Expansionary and contractionary Monetary Policy:**

The change in the circulation of the quantity of money leads to real effects on the economy of the country. Monetary authorities use expansionary or contractionary monetary policy to control the economic factor like inflation that has a negative impact over economic growth. Expansionary monetary policy is used by the monetary authority when they need to increase the supply of money in the economy, it decreases the interest rate and increases the aggregate demand which results in inflation. Inflation means more money in the hand of the consumers; therefore, it increases the prices of goods and services which shows the impact on the business decision-making process.

On the other hand, Contractionary monetary policy is used by monetary authority when they need to increase the interest rate and decrease the aggregate demand by decreasing the supply of money to control the inflation rate. Inflation has a negative impact on the employment rate and GDP. When the inflation rate decreases, businessman get more opportunities to expand their business and provide more employment.