

AQA Economics A-level

Macroeconomics

Topic 4 - Financial Markets and Monetary Policy

Flashcards

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Bank of England



Bank of England

Central bank in the UK economy, which is in control of monetary policy.



Bond



Bond

Debt; represents money that must be paid back over a period of time



Broad money



Broad money

Money held in banks and building societies but that is not immediately accessible



Central bank



Central bank

Controls the banking system and manages the government's monetary policies.



Contractionary monetary policy



Contractionary monetary policy

Monetary policy implemented to decrease aggregate demand.



Default



Default

The failure or inability to meet the legal minimum requirements of a loan



Dividend



Dividend

Portion of firms' profits paid to shareholders



Equation of exchange



Equation of exchange

The stock of money in an economy multiplied by the velocity of circulation equals the price level multiplied by real output ($MV=PQ$).



Expansionary monetary policy



Expansionary monetary policy

Monetary policy implemented to increase aggregate demand.



Financial sector



Financial sector

Firms that provide financial services



Hot money



Hot money

Highly volatile money derived from investors storing money in different institutions, looking for the highest rate of return



Interest



Interest

Money paid to a lender by a borrower



Monetary Policy Committee (MPC)



Monetary Policy Committee (MPC)

Nine economists who meet monthly to set the Bank Rate as well as other monetary instruments.



Monetary policy



Monetary policy

Use of interest rates and other monetary instruments to achieve macroeconomic objectives.



Money supply



Money supply

Stock of money in the economy,
comprised of cash and bank deposits.



Narrow money



Narrow money

Physical money and more liquid assets.



Quantitative easing (QE)



Quantitative easing (QE)

By buying assets (generally government bonds) using newly created electronic money.



Rate of interest



Rate of interest

The reward for saving and the cost of borrowing.



Repo rate



Repo rate

Rate at which the central bank can lend money to commercial banks.



Reserve currency



Reserve currency

Foreign currency held in a country's official reserves due to its value as a medium of exchange



Reverse repo rate



Reverse repo rate

Rate at which the central bank can borrow money from commercial banks



Shadow banking system



Shadow banking system

Unregulated firms that provide credit



Share



Share

Equity; represents entitlement to a portion of a firm's profits via dividends



Systemic risk



Systemic risk

When issues within one firm in the financial sector could bring about the collapse of the sector and/or the economy



Transmission mechanism of monetary policy



Transmission mechanism of monetary policy

The process by which alterations to the base rate affect determinants of aggregate demand

