

## Monetary Economics Overview Includes Monetary Policy Instruments, Functions and Impacts

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### Abstract

This study discusses monetary policy, the function and impact of monetary policy as well as the factors that influence the money supply. Monetary policy is a policy or regulation issued by the Central Bank which is used to manage a number of money supplies in a country to be able to create a specific purpose. The functions and impacts of monetary policy include maintaining an investment climate that occurs within the country, increasing the stability of economic growth in a country, overcoming high levels of unemployment and opening up a number of large employment opportunities, increasing the number of the balance of payments, maintaining the stability of value. the existing currency exchange is able to maintain a number of stability of the price of goods on the market. Factors that affect the amount of money circulating in society include the size of state spending, the fast and slow rate of money circulation, the motive for having cash, the transaction motive, the precautionary motive, and the speculative motive.

**Keywords:** Monetary Policy, Central Bank, Investment Climate

### Introduction

Economic growth is an illustration of the impact of government policies implemented especially in the economic sector. Economic growth is a growth rate that is formed from various economic sectors which indirectly describes the level of economic growth that occurs. To be able to achieve high but stable economic growth is not an easy job to do, to achieve this a monetary policy is needed. Monetary policy aims to direct the macro economy to a better and or desirable condition. These conditions are measured using the main macro indicators, such as the maintenance of good economic growth and a decline in the unemployment rate. In accordance with the economic conditions of the Indonesian people whose activities are based on banking credit financial assets, the government needs to relax monetary policy through the dynamic management or regulation of the credit system, in accordance with the needs and structure of the economic conditions of the local communities that will be driven.

### Understanding Monetary Policy

Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation,

consumption, growth and liquidity. In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth. The Geospatial Portal implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, moral persuasion and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy. Monetary policy can be expansionary and contractionary in nature. Increasing money supply and reducing interest rates indicate an expansionary policy. The reverse of this is a contractionary monetary policy. For instance, liquidity is important for an economy to spur growth. To maintain liquidity, the Geospatial Portal is dependent on the monetary policy. By purchasing bonds through open market operations, the Geospatial Portal introduces money in the system and reduces the interest rate.

### **Monetary policy**

In implementing monetary policy, the central bank will utilize a number of financial instruments. Well, for a number of financial instruments used. In a number of direct instruments, you can find several main driving factors such as (a) Determination of interest rates is the determination of the deposit interest rate or loan interest rate held by the Central Bank or Bank of Indonesia. (b) Determination of the credit ceiling is a limit on the maximum amount of credit to be extended by the banking sector. (c) The liquidity constellation is a commercial bank obligation that is used to maintain a certain amount of currency in the form of a percentage and is used to raise funds used to finance the government budget. (d) Direct credit is an obligation of commercial banks that are able to provide a number of credits in certain sectors.

### **Indirect Instruments**

Meanwhile, in indirect instruments, you can also find several main driving factors such as: (a) Open market operations are the buying and selling activities of securities carried out by a number of central banks as well as foreign exchange which is also carried out in the forex market. This open market operation is carried out to influence a number of interest rates, rupiah liquidity and exchange rates. (b) Discount requirements are one of the obligations of commercial banks to keep a certain amount of mandatory reserves from third party funds in the central bank so that they can influence a number of capabilities of commercial banks in lending. (c) The discount policy or discount facility is made to increase the amount of money issued. You do this by setting a discount on central bank loans at commercial banks. The higher the discount amount determined, the lower the amount of money spent in the community. (d) Cash reserves policy or reserve requirements, implemented through commercial bank policies to increase or increase cash reserves. These cash reserves can consist of demand deposits, time deposits and various other types of savings.

### **Types of Monetary Policy**

#### ***Monetary Expansive Policy***

Expansive monetary policy is a policy in order to increase the amount of money in circulation.

This policy was carried out to overcome unemployment and increase people's purchasing power (public demand). This policy is applied when the economy is in a recession or depression. This expansionary monetary policy is also known as easy monetary policy. The application of this policy is as follows: (a) Discount politics (lowering interest rates). (b) Open market politics (purchase of securities, such as stocks and bonds). (c) Political cash ratio (decrease in cash reserves), (d) Selective credit politics (loose credit provision)

### ***Monetary Kontractive Policy***

Contractive monetary policy is a policy implemented in order to reduce the amount of money in circulation. This policy is carried out when the economy is experiencing inflation. A contractionary monetary policy is also known as the tight money policy. This policy can be implemented in the form of: (a) Discount politics (increase in interest rates), (b) Open market politics (sale of securities), (c) Political cash ratios (increase in cash reserves), (d) Selective credit politics (tightening of granting credit).

### ***Indicators Affecting Monetary Policy***

In determining an existing success in monetary policy, a number of indicators will usually be used. In this case, there are 3 indicators that influence it, including:

#### ***Money Supply***

It has the aim of determining the growth of the money supply in society which is used as one of the targets of the intermediary so that the central bank is also able to focus on controlling inflation that will occur.

#### ***Exchange Rate Targeting***

It has the aim of setting and adjusting a number of currency values, especially the value of the domestic currency against a number of currencies from various countries. For some countries, these are large countries and have a fairly low inflation rate.

#### ***Inflation Target***

It has a goal of setting a number of inflation targets that will be carried out in the medium term as well as a commitment to reach the limit of price stability as the main goal, namely in the long term. The advantage is that the system is simple and is even able to set quite clear achievement targets.

### **Monetary policy objectives**

The ultimate goal of a monetary policy is a macroeconomic condition to be achieved. These objectives are not the same from one country to another and are not the same from time to time. The objectives of monetary policy include: (a) Maintaining economic stability, meaning that the growth in the flow of goods and services is balanced with the growth in the flow of available goods and services. (b) Maintaining price stability, meaning that the price of an item is the result of the interaction between the amount of money in circulation and the amount of money available in the market. (c) Circulating currency as a medium of exchange in the economy. (d) Maintain a balance between needs

## **Monetary Policy Functions and Impacts**

### ***Monetary Policy Function***

A monetary policy implemented by the central bank does have quite a number of functions for several parties, especially the economy in a country, including in Indonesia today. A number of functions of the policy are as follows: (a) Has a function to maintain the investment climate that occurs within the country. (b) Has a function to increase the stability of economic growth in a country. (c) Has a function to overcome the high level of unemployment and open a number of large employment opportunities. (d) Can help to increase a number of balance of payments. (e) Used to maintain the stability of existing currency exchange rates. (f) Able to maintain a certain amount of stability of the price of goods on the market.

### ***Impact of Monetary Policy***

After understanding a number of definitions, functions, objectives, and even instruments of monetary policy in Indonesia. The policy used to improve and be used to maintain economic stability is to use this policy. There are several researchers who say that the function of money, which is used as a medium of exchange, also serves to store indigo. From this function, what makes money used to get some profit. A change in the amount of money to be circulated will affect the short-term and medium-term interest rates on the money market.

Besides that, it will also affect the increase of a number of national income. The positive impact of this policy is that it is able to regulate the production and circulation of Rupiah throughout Indonesia. Meanwhile, the negative impact that can be obtained is that if the amount of money in circulation is small, there will be an economic crisis.

### **Example of Monetary Policy**

The last thing you have to understand in learning about monetary policy in Indonesia is knowing an example. Some examples of policies that have been implemented in Indonesia include the following: (a) Bank Indonesia conducts an auction in the form of certificates that they own or another way that can be done is to buy a number of securities on the capital market (b) Bank Indonesia also can reduce a number of existing interest rates, especially when conditions in the economy are in line with expected expectations. On the other hand, if Bank Indonesia later increases the value of their interest rates, this will be used solely to limit a number of economic activities so that the circulation of money begins to decrease. (c) When the economy begins to experience a recession, the circulation of money will be increased so that economic activity will increase. Some examples are the purchase of a number of securities. (d) When inflation occurs, Bank Indonesia will be able to reduce the amount of money circulating in society. The way that can be done is to sell a number of securities so as to reduce a number of economic activities that are quite excessive.

### **Factors Affecting the Money Supply**

In public life, the amount of money in circulation is determined by the policy of the central bank to increase or decrease the amount of money through monetary policy. Of the several factors that influence the amount of money circulating in society, among others: (a) The size of state

expenditures related to national income. (b) The fast and slow rate of circulation of money. (c) The motive of having cash, J.M Keynes in the theory of liquidity preference: transaction motive, precautionary motive, speculative motive.

If there are things that affect the demand for money, then there are things that affect the money supply as well, namely: (a) High and low interest rates, (b) Level of community income, (c) Total population, (d) Geographical conditions, (e) The economic structure of society, (f) Mastery of science and technology, (g) Economic globalization.

### **Interbank Money Market**

As the name implies, the money market is the entire demand and supply of funds or securities which have a maturity of one year or less and can be channeled through banking institutions. The money market is often called the short-term credit market or can be called a market where funders meet with parties who need funds (consumers), where these meetings can be held directly or through an intermediary (broker) for transactions. demand (demand) or supply (supply) of a number of funds or short-term securities.

### **Money Market Functions**

The need for a money market is motivated by the need for entrepreneurs to get a certain amount of funds in the short term or in nature it must be met immediately. Thus the money market has the following functions: (a) It makes it easier for people to obtain short-term funds to finance working capital or other short-term needs. (b) Providing opportunities for the public to participate in development by purchasing Bank Indonesia Certificates and Money Market Securities; and (c) Supporting income distribution programs for the community. (d) As a source of funds for working capital for companies that need additional capital for expansion. (e) To act as a mediator and facilitator of investment activities from foreign investors to local entrepreneurs in the form of short-term credit.

The types of transactions on the money market include: (a) Interbank money market, (b) bank certificates (c) Money market securities (d) Certificates of Deposit, (e) Foreign exchange markets

### **Money Market Instruments**

On the money market there are several securities that are traded. Money market instruments are as follows: (a) Bank certificates, namely securities in the form of short-term debt issued by the government. (b) Money market securities, namely securities traded at a discount with Bank or other financial institutions as determined by Bank (c) Certificates of Deposit, namely financial instruments issued by Banks against customer deposits with a determined interest rate and maturity period. (d) Treasury Bills, namely debt securities issued by the government of a country with a maturity of less than one year

### **Types of Financial Markets**

The financial market can be divided into several sub-types, such as: (1) The capital market, which consists of the primary market and the secondary market, which is further divided into the stock market, which is a means of financing through the issuance of shares, and is a means

of trading shares. bond market, which is a means of financing through the issuance of bonds and is a means of trading bonds. (2) Commodity market, which facilitates commodity trading. (3) Financial markets, which are a means of financing short-term debt and investment. (4) Derivatives market, which is a means of providing instruments for managing financial risk.

### Money Market Benefits

The benefits of the money market are: (a) Can be used to finance the real sector, (b) Can increase or increase the number of ways to get short-term spending by issuing notes, commercial papers and similar short-term instruments. (c) The government will have better information and opportunities to monitor credit needs in the national economy. (d) Institutions that develop money markets and capital markets develop.

### Conclusion

Monetary policy is government policy concerning the behavior of the central bank in the supply of money and regulation of money in circulation in a country. Monetary authority is an entity that has the authority to control the amount of money in circulation in a country and has the right to set interest rates and other parameters that determine the cost and supply of money. The balance sheet of the monetary authority is the result of a consolidation of the balance sheet of Bank Indonesia and the State treasury.

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