E101 - 6.1 - Money Market & Monetary Policy

The supply of money is determined by the Bank of Canada which can change the supply as it sees fit.

Interest rate - The annual rate at which payments is made for the use of money (or borrowed funds), as a percentage of the borrowed amount.

The functions of a central bank are :
-The issuer of currency
-Governments bank and manager of foreign currency reserves
-The bankers bank and lending of last resort
-The auditor and inspector of commercial banks
-The regulator of the money supply.

Transactions Demand for Money - The desire of people to hold money as a medium of exchange that is to affect transactions.
Asset Demand for Money - The desire of people to use money as a store of wealth that is to hold money as an asset.

$$Rate\ of\ Return\ (Rate\ of\ Interest) = \frac{Coupon\ Interest\ Rate \pm \Delta\ in\ Bond\ Price}{Price\ Paid\ for\ Bond} \times 100$$

$$r = \frac{F - P}{P} \times \frac{365}{\#\ Day\ to\ Maturity}$$

The lower the price of bonds, the higher the return (the interest rate); the higher the price of bonds, the lower the yield (rate of return).

An increase in the interest rate is caused by either a rise in the demand for money or a fall in the supply of money.
A decrease in the interest rate is caused by either a fall in the demand for money or a rise in the supply of money.

Monetary Policy - Policy designed to change the money supply, credit availability, and interest rates.

E101 - 6.2 - Money Market & Monetary Policy

Expansionary Monetary Policy - A policy that aims to increase the amount of money in the economy and make credit cheaper and more easily available.
Contractionary Monetary Policy - A policy in which the amount of money in the economy is decreased and credit becomes harder to obtain and more expensive.
Open Market Operations - The buying and selling of securities by the Bank of Canada on the open (to the public) market.

Keynesian monetary policy used to regulate credit and currency in the best interest of the nation … and to mitigate by its influence fluctuations in the general level of production, trade, prices, and employment.

Transmission Process - The Keynesian view of how changes in money affect (transmit to) the real variables in the economy.
Quantitative Easing - When central banks purchase financial assets of longer maturity, such as 10-year bonds rather than 90-day T-bills, in an attempt to stimulate the economy.

$MV = PQ$

M - Supply of Money
V - Velocity of Money
Q - Quantity of Goods
P - Composite (or Index) of their Prices

$Nominal\ GDP = Q \times P$

$Nominal\ GDP = M \times V$

Monetarism - An economic school of thought that believes that cyclical fluctuations of GDP and inflation are used are usually caused by changes in the money supply. (Milton Friedman).
Equation of Exchange - A formula that states that the quantity of money times the velocity of money is equal to nominal GDP (price × real GDP).

Overnight Interest Rate - The interest rate that commercial banks charge one another on overnight loans.
Target for the Overnight Rate - The Bank of Canada's key policy interest rate; it is the midpoint of the banks 50-basis-point operating band.

Bank Rate - The rate the commercial banks pay to the Bank of Canada on loans.
Bankers Deposit Rate - The rate the Bank of Canada pays the commercial banks on deposits.

Bank Rate
Target Overnight Rate
Banker's Deposit Rate

The Bank of Canada targets the interest rate to contribute to a solid economic performance and rising living standards for Canadians by keeping inflation low, stable, and predictable.