

RESERVE BANK OF AUSTRALIA

Activity

The Transmission Mechanism



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Changes in the cash rate affect the economy through five channels. Read the <u>Explainer: The Transmission of Monetary Policy</u> and use the information to summarise the effects of a change in the cash rate on economic variables.

Complete the diagram below:

- by marking in an upward arrow (1) (to indicate an increase); or
- a downward arrow () (to indicate a decrease).

Complete this exercise for each scenario:

- 1. Decrease in the cash rate
- 2. Increase in the cash rate.

Tip: note whether the direction of the effect depends on any factors.

