Accommodative Monetary Policy

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Accommodative Monetary Policy (AMP)

- AMP, also known as loose credit or easy monetary policy, occurs when a central bank attempts to expand the overall money supply to boost the economy when growth is slowing.
- The policy is implemented to allow the money supply to rise in line with national income and the demand for money.

How it Works ?

- When the economy slows down, the central bank can implement an accommodative monetary policy to stimulate the economy.
- It does this by running a succession of decreases in the bank rate, making the cost of borrowing cheaper.
- The central bank can also allow the money supply to increase or increase the money supply via quantitative easing (QE).
- Accommodative monetary policy is triggered to encourage more spending from consumers and businesses by making money less expensive to borrow through the lowering of short-term interest rates.
- When money is easily accessible through banks, the money supply in the economy increases. This leads to increased spending. When businesses can easily borrow money, they have more funds to expand operations and hire more workers, which means that the unemployment rate will decrease.
- On the other hand, people and businesses tend to save less when the economy is stimulated due to the low savings interest rates offered by banks. Instead, any additional funds are invested in the stock market,

pushing up stock prices.

Criticism

- While accommodative monetary policy expands economic growth mid-term, there may be negative repercussions in the long-term.
- If the money supply is loosened for too long, there will be too much money chasing too few goods and services, leading to inflation. This leads to increased costs for some goods, such as housing.
- To avoid inflation, most central banks alternate between the accommodative monetary policy and the tight monetary policy in varying degrees to encourage growth while keeping inflation under control.
- A tight monetary policy is implemented to contract economic growth. Converse to accommodative monetary policy, a tight monetary policy involves increasing interest rates to constrain borrowing and to stimulate savings. As well, the increased money supply can depreciate the currency.