

The Transmission Mechanism



Changes in the cash rate affect the economy through five channels. Read the Explainer 'The Transmission Mechanism of Monetary Policy' 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 (↑) (to indicate an increase or positive effect) or a downward arrow (↓) (to indicate a decrease or negative effect). Complete this exercise twice, once for each scenario:

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

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

Scenario: _____

