

<b>Title</b>	<b>Demonstrate knowledge of monetary policy and evaluate its effectiveness</b>		
<b>Level</b>	<b>5</b>	<b>Credits</b>	<b>3</b>

<b>Purpose</b>	People credited with this unit standard are able to demonstrate knowledge of the operation of, and evaluate the effectiveness of, monetary policy.
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<b>Classification</b>	Economic Theory and Practice > Macro Economics
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<b>Available grade</b>	Achieved
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**Guidance Information**

- 1 *Monetary policy* should be considered in the context of the New Zealand economy.
- 2 Sophisticated (modern) quantity theory of money is based on the equation of exchange which states that the money value of Gross Domestic Product (GDP) transactions must be equal to the product of the money stock times the velocity of circulation (that is  $MV = PQ$ ). The sophisticated quantity theory of money assumes that velocity can be taken to be virtually constant. Therefore, any increase in money stock must impact upon nominal GDP.
- 3 Responses to monetary policy must show awareness of the current Policy Target Agreement (PTA) between the New Zealand Minister of Finance and the Governor of the Reserve Bank of New Zealand. Current PTA and supporting information is available from the Reserve Bank of New Zealand's website <http://www.rbnz.govt.nz>.

**Outcomes and performance criteria**

**Outcome 1**

Demonstrate knowledge of the operation of monetary policy.

**Performance criteria**

- 1.1 The New Zealand financial system is described in relation to the monetary policy.

Range Reserve Bank of New Zealand, registered banks, other financial institutions, monetary aggregates.

- 1.2 Policy instruments available to pursue monetary objectives are described.
- Range official cash rate (OCR), open market operations (OMO), monetary policy statements.
- 1.3 Transmission mechanisms through which monetary policy operates to control inflation are described.
- Range transmission mechanisms include – interest rates, exchange rate, credit availability, inflationary expectations.

**Outcome 2**

Evaluate the effectiveness of monetary policy.

**Performance criteria**

- 2.1 The evaluation determines the effectiveness of monetary policy in terms of achieving price stability.
- Range price stability – one from – short term, medium term, long term.
- 2.2 The evaluation determines the indirect impact of monetary policy in terms of economic indicators.
- Range may include but is not limited to – two from – economic growth, balance of payments, exchange rates, equitable distribution of income, full employment.

**This unit standard is expiring. Assessment against the standard must take place by the last date for assessment set out below.**

**Status information and last date for assessment for superseded versions**

Process	Version	Date	Last Date for Assessment
Registration	1	29 October 1996	31 December 2021
Revision	2	21 July 1999	31 December 2021
Revision	3	14 September 2005	31 December 2021
Review	4	16 October 2009	31 December 2021
Rollover and Revision	5	16 April 2015	31 December 2021
Review	6	27 June 2019	31 December 2021

<b>Consent and Moderation Requirements (CMR) reference</b>	0116
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This CMR can be accessed at <http://www.nzqa.govt.nz/framework/search/index.do>.