grows too rapidly inflation is likely to be high. Too slowly or even fall then recession is likely to result. Two major sources of monetary growth banks choosing to hold a lower liquidity ratio (probably in response to an increase in the demand for loans and public sector borrowing financed by borrowing from the banking sector

BANK LIQUIDITY RATIO: central bank could impose a statutory minimum reserve ratio on the banks, above the level that banks would otherwise choose to hold. Such ratios comes in different form: banks required to hold a given minimum percentage of deposits in the form of cash, to hold given minimum percentage of certain specified types of deposit in the form of various liquid assets. Effect of minimum reserve ratio to prevent banks choosing to reduce their cash or liquidity ratio and creating more credit. Popular in the past, also effect of reducing the bank deposits multiplier. Major problem with restrictions that banks my find ways of getting round them-very difficult to regulate and police every single complex financial system.

MINIMUM RESERVE RATIO: a minimum ratio of cash (or other specified liquidity assets) to deposits (either total or selected) that the central bank requires banks to hold.

Focus on the two major approaches to monetary policy: controlling the money supply and interest rates. Two ways: alter the level of liquidity in the banking system, on which credit is created. Second alter the size of the bank deposits multiplier, by altering the ratio of reserves to deposits.= if the bank deposits multiplier can be reduced, credit will have to be reduced for any given reserve base

OPEN MARKET OPERATIONS: four techniques that a central bank could use to control the money supply (assume in each case that the central bank wishes to reduce money supply)O M O are the most widely used, alter the monetary base (cash in circulation outside the central bank) The sale(or purchase) by the authorities of gov securities in the open market in order to reduce (or increase) money supply.

FUNDING (in monetary policy) where authorities alter the balance of bills and blonds for any given level of gov borrowing. Alter the overall liquidity position of the banks. (example: change by the central bank, in the balance of funding the national debt.) to reduce the money supply the central bank issues more bonds and fewer bills.

FISCAL AND MONETARY POLICY IN THE UK:

Keynesian: active fiscal policy mean of stabilising aggregate demand, prefer discretionary policy-changing policy as circumstances change.

Monetarist: in favour of using M P rather than F P as a means of controlling inflation, seeing inflation as purely the consequence of excessive growth in the money supply, prefer to set firm rules (targets for inflation)and then stick to them.