





Activity

The Transmission Mechanism



Changes to the Reserve Bank's monetary policy settings (e.g. a change to the target cash rate) affect the economy through several channels. Read the [Explainer: The Transmission of Monetary Policy](#) and use the information to summarise the effects of a change in monetary policy on economic variables.

Complete the diagram below:

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

Complete this exercise for each scenario:

1. Monetary policy is loosened such as through a decrease in the cash rate.
2. Monetary policy is tightened such as through an increase in the cash rate.

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

