Monetary policy refers to the actions taken by a country's central bank to regulate the money supply, interest rates, and overall economic activity in order to achieve macroeconomic objectives such as controlling inflation, stabilizing the currency, fostering employment, and promoting economic growth. Central banks use tools like setting benchmark interest rates, open market operations, and adjusting reserve requirements to influence borrowing, investment, and consumer spending. For instance, when the economy is slowing, the central bank may lower interest rates to encourage borrowing and stimulate demand. Conversely, during periods of high inflation, it might raise interest rates to curb excessive spending and stabilize prices. Through these measures, monetary policy plays a crucial role in managing economic stability and growth.

**Inflation**

Inflation is the rate at which the general level of prices for goods and services rises, eroding the purchasing power of money. It occurs when demand for goods and services exceeds supply, or when production costs increase, leading to higher prices. Inflation can have significant economic impacts: moderate inflation may indicate a growing economy, while high inflation can create uncertainty, reduce the value of savings, and hurt those with fixed incomes. On the other hand, deflation, or falling prices, can signal economic stagnation. Central banks typically try to control inflation through monetary policies, adjusting interest rates and money supply to keep inflation within a target range, balancing economic growth with price stability.