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## Effect of Interest rates on the AD

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· 9 hours ago 🔗

Hello everyone,

We all know that as interest rates rises, the AD falls as people shift domestic consumption for imports. However, here is an article from the WSJ which mentions the above and also contradicts by saying that low interest rates fueled imports in Indonesia

<http://online.wsj.com/news/articles>

[/SB10001424052702304851104579363852124566432?mg=reno64-wsj](http://online.wsj.com/news/articles/SB10001424052702304851104579363852124566432?mg=reno64-wsj)

Sorry, if you cannot see the entire article, try registering free or the crux is this, it states that low interest rates fueled imports on the one hand and simultaneously states that higher interest rates in the future can lower consumption.

Could someone throw light in this regard?

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[Yao Yao](#) · 4 hours ago 🔗

my understanding is when interest rate rises, it means the monetary policy is aiming for contraction, so AD falls, be it demand for imported goods or home made goods.

whether to choose domestic or imported goods is more dependent on exchange rate I think.

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