Money, prices and the exchange rate II

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UNIVERSIDAD MILITAR NUEVA GRANADA

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- Check the message **Welcome greeting** published in the News Bulletin Board.
- Dear student please edit your profile uploading a photo where your face is clearly visible.
- The purpose of the virtual meetings is to answer questions and not to make a summary of the study material.
- If you want to participate, please fill out the following survey: Primer corte 30% > Learning Activities > Tu opinión sobre la economía colombiana
- This presentation is based on (Cardenas 2020, chap. 7)

Analyze the money market and introduce the concepts of inflation, nominal exchange rate and interest rate

- In the link **https://www.banrep.gov.co/es/estadisticas/tasas-interes-politica-monetaria** > Información sobre la(s) serie(s) on **2025-02-24** it was pointed out that:
  - *"La tasa de intervención de política monetaria es la tasa de interés mínima que el Banco de la República cobra a las entidades financieras por los préstamos que les hace mediante las operaciones de mercado abierto (OMA) que se otorgan en las subastas de expansión monetaria a un día hábil (plazo overnight)."*
  - *"Esta tasa es el principal mecanismo de intervención de política monetaria usado por el Banco de la República para afectar la cantidad de dinero que circula en la economía."*
- Also the *"tasa de intervención de política monetaria"* on **2025-02-24** was **9.50%**

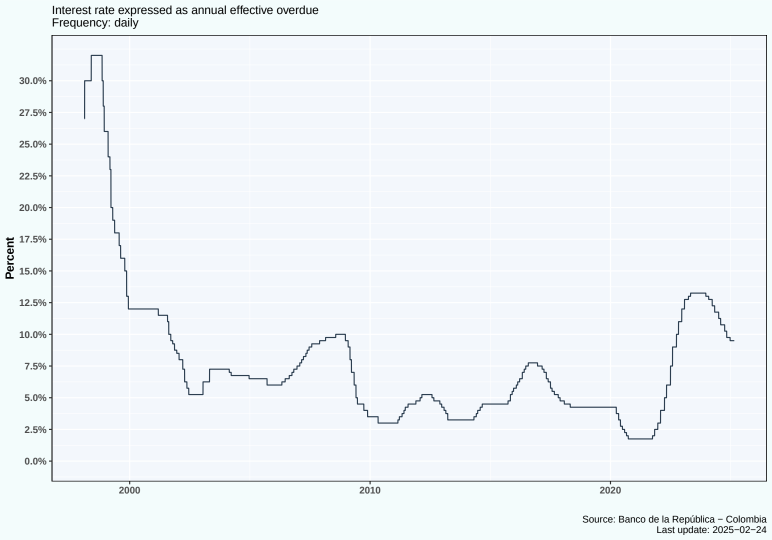

Figure 1: Monetary policy intervention rate of the Bank of the Republic (Colombia)

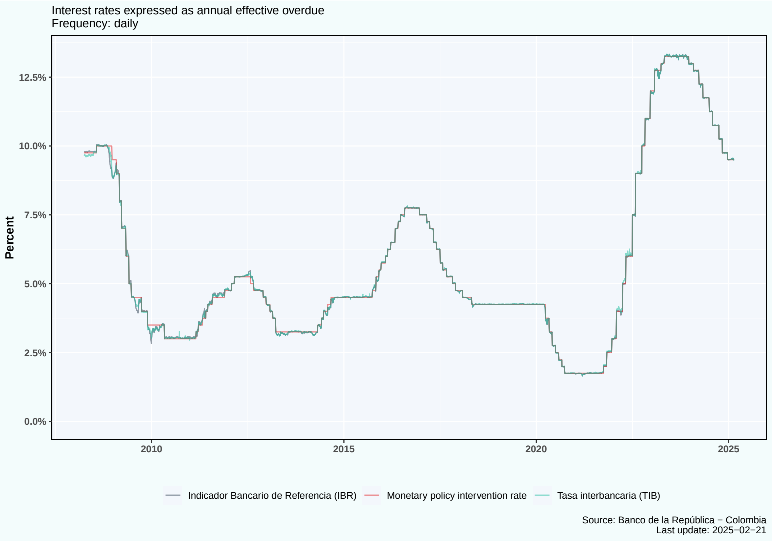

Figure 2: Monetary policy intervention rate, TIB and IBR

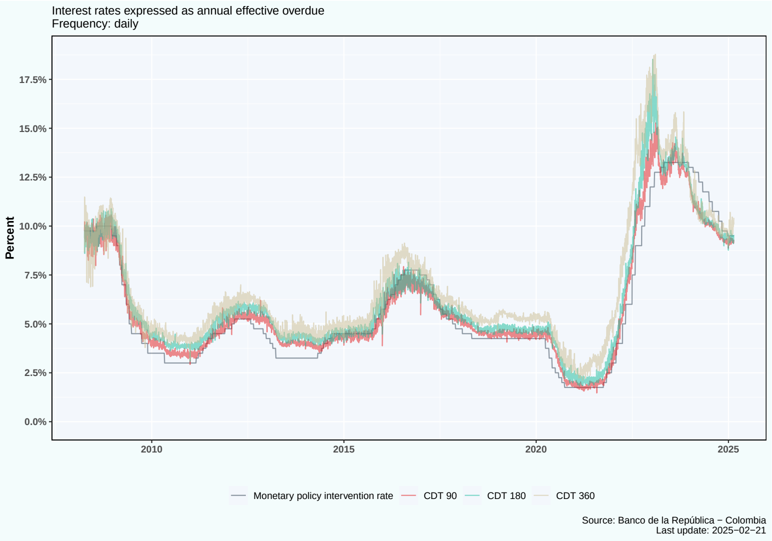

Figure 3: Monetary policy intervention rate and CDT interest rates

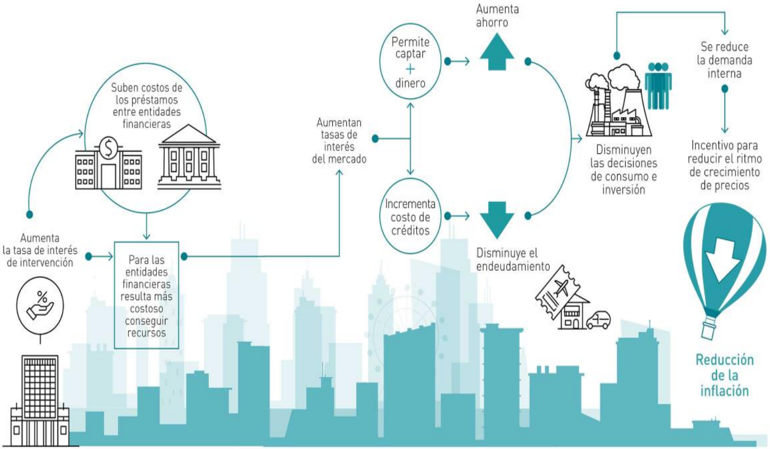

Figure 4: Interest rate and credit (Banrep 2022, fig. Canal de tasa de interés y de crédito: ejemplo gráfico)

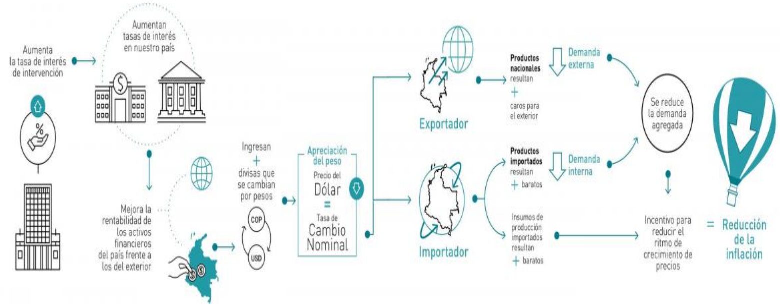

Figure 5: Exchange rate (Banrep 2022, fig. Canal de la casa de cambio: ejemplo gráfico)

Figure 6: Expectations (Banrep 2022, fig. Canal de las expectativas: ejemplo gráfico)

- When inflation is high or volatile, it becomes difficult for businesses and individuals to plan for the future.
    - Low and stable inflation allows for more accurate long-term planning.
- High or volatile inflation is an obstacle for businesses to make sound investment decisions.
    - When inflation is high or volatile some resources are allocated to mitigate the effects of inflation generating an inneficient use of productive resources.
- High or volatile inflation can lead to arbitrary redistributions of resources, often harming those with fixed incomes or limited financial resources
    - Low and stable inflation helps to limit those unexpected redistributions

- Zero inflation increases the risk of deflation, which is a sustained decrease in the general price level.
  - When prices are expected to fall, consumers and businesses tend to delay purchases and investments, hoping to buy things cheaper in the future. This leads to a decrease in demand, which further drives down prices.
- Inflation statistics can overstate actual inflation due to difficulties in accurately measuring quality improvements in products.
  - If this is the case and the desire level of inflation is zero you may be targeting a negative inflation rate.

- What is central bank independence?
    - *"An independent central bank is one that can carry out monetary policy without political interference."* (CEA 2024)
    - *"An independent central bank is one that can carry out monetary policy insulated from pressures arising from other parts of government or elsewhere."* (D. Kugler 2024)

- Why independence is important for a central bank?
  - Independence is a critical component for a central bank to control inflation.
    - Central bank's commitment to lower inflation needs credibility to anchor the expectations of the economic agents. Independence prevent that credibility can be undermine by political influence (CEA 2024).
    - Central bank targets, like mantaining a low and stable level of inflation, operate over a considerably longer time frame compare to politically-motivated policies. A non-independent central bank can face political pressure to change its behavior where in that situation can not achieve its targets (CEA 2024).

- According to (D. Kugler 2024) and explored in the economic literature a central bank is a possible solution to this problems where the governments delegate the monetary policy to an independent entity.
- The best analogy that represents this situation and pointed out by (D. Kugler 2024) is Ulysses and the Sirens vs short-term desires and longer-term goals.

Figure 7: Ulysses and the Sirens (1909) by Herbert James Draper

- To my family that supports me
- To the taxpayers of Colombia and the **UMNG students** who pay my salary
- To the **Business Science** and **R4DS Online Learning** communities where I learn **R** and π**-thon**
- To the **R Core Team**, the creators of **RStudio IDE**, **Quarto** and the authors and maintainers of the packages **tidyverse**, **knitr**, **kableExtra**, **wbstats**, **tidyquant**, and **tinytex** for allowing me to access these tools without paying for a license
- To the **Linux kernel community** for allowing me the possibility to use some **Linux distributions** as my main **OS** without paying for a license

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