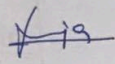
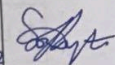
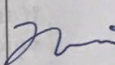


 MONASH University
Business and Economics

**Group Assignment
Cover Sheet**

Each student must sign this assignment cover sheet.

Student ID Number	Family name / Email	Given Names / Telephone	Signature
1. Group Representative 28305925	SIVAKUMAR Email... psiv0001@student.monash.edu	POOSITHA Phone... 0424 014 300	
2. Group Member 27816176	RYTER Email... slryt1@student.monash.edu	SONIA Phone... 0434 282 052	
3. Group Member 27138429	Liang Email... clia55@student.monash.edu	Phone... 0405580229	Changhong
4. Group Member 2873 9019	PHAI Email... jpha0006@student.monash.edu	JASON Phone... 04 99 768 368	

Print out, sign and complete this cover sheet. Scan a copy and place it as the Assignment first page before uploading in the Assignment Submission Moodle link

Campus: Clayton	BFC1001: Foundations of Finance	
	Due Date: 9/10/2017	Date Submitted: 9/10/2017

All work must be submitted by the due date. If an extension of work is granted this must be specified with the signature of the lecturer/tutor.

Extension granted until (date) 9/10/2017 Signature of CE/Unit Coordinator.....

Please note that it is your responsibility to retain copies of your assessments.

If there are no substantial factors to indicate that plagiarism was accidental or unintentional, plagiarism will be treated as cheating in terms of Monash Statute 4.1 – Discipline.

Plagiarism: Plagiarism means to take and use another person's ideas and or manner of expressing them and to pass these off as one's own by failing to give appropriate acknowledgement. This includes material from any source, staff, students or the Internet – published and unpublished works.

Collusion: Collusion is the presentation of work which is the result in whole or in part of unauthorised collaboration with another person or persons.

For further information see the university's Plagiarism Policy at:

<http://www.adm.monash.edu.au/unisec/academicpolicies/policy/plagiarism.html>

Where there are reasonable grounds for believing that plagiarism or collusion has occurred, this will be reported to the Chief Examiner, who will disallow the work concerned by prohibiting assessment or refer the matter to the faculty manager.

Students' Statement: (Each student must sign adjacent to their name in the space provided at the top of this page)

I have read the university's statement on cheating and plagiarism, as described in the Student Resource Guide (refer <http://www.monash.edu.au/au/pubs/handbooks/srg/srg-1119.html>)

This assignment is original and has not previously submitted as part of another unit/subject/course,

I have taken proper care of safeguarding this work and made all reasonable effort to ensure it could not be copied,

I acknowledge that the assessor of this assignment may for the purposes of assessment, reproduce the assignment and:

- Provide to another member of faculty; and/or
- Communicate it to the university's plagiarism checking service (which may then retain a copy of the assignment on its database for the purpose of future plagiarism checking).

I understand the consequences for engaging in plagiarism as described in University Statute 4.1. Part III – Academic Misconduct (refer <http://www.monash.edu.au/pubs/calendar/statutes/statutes04.html#Heading102>)

I certify that I have not plagiarised the work of others or participated in unauthorised collusion when preparing this assignment.

Privacy Statement

The information on this form is collected for the primary purpose of assessing your assignment. Other purposes of collection include recording your plagiarism and collusion declaration, attending to course and administrative matters and statistical analyses. If you choose not to complete all the questions on this form it may not be possible for Monash University to assess your assignment. You have a right to access personal information that Monash University holds about you, subject to any exceptions in relevant legislation. If you wish to seek access to your personal information or inquire about the handling of your personal information, please contact the University Privacy Officer: privacyofficer@adm.monash.edu.au

- 2 -

BFC1001 Assignment Check List

Group Assignment Cover Sheet

The Group Representative is to complete the checklist below to ensure that the group has met all conditions that allow your assignment to be marked.

Submission Conditions	Yes	No
Is the assignment submitted by an individual?		✓
Is the assignment submitted by a group less than 3 or exceeding 4?		✓
Is the Group Assignment Cover sheet not attached/incomplete/incorrect?		✓
Do you have multiple submissions of the assignment?		✓
If any of the answers above are YES, than part or all of your assignment is voidable.		
Video presentation Conditions	Yes	No
Is the video presentation 5min or less?	✓	
Is your video presentation playable on Windows or does your hosting link work?	✓	
Do all group members 1) appear in the video & 2) present in the video?	✓	
Are all group members identified in the video verbally or by text tag?	✓	
If any of the answers above are NO, than part or all of your assignment is voidable.		

BFC1001 TEAM ASSIGNMENT: RBA Interest Rate Prediction & Analysis

BFC1001

Members: Sonia Ryter
Poojitha Sivakumar
Changhong Liang
Jason Phai

Due Date: 09 October, 2017 (*Extension*)

Table of content:

Executive Summary.....	5
Introduction.....	5
Argument 1.....	6
Argument 2	8
Argument 3	10
Conclusion	11
Reference list	12

Executive Summary

After analysing the current economic condition in Australia and considering the aim of maintaining a healthy inflation cash rate of 2-3%, the cash rate is proposed to be raised by 25 basis points from 1.5 per cent to 1.75 per cent in the month of October. This business report has a target of analysing the current economy in Australia, which includes the reasons why there should be contractionary monetary policy, as well as the impact of this policy on the economy of Australia. More specifically, this report focuses on the following three arguments, Increasing the cash rate to 1.75% to maintain stability in the economy by calming the housing market, strengthening the value of the Australian dollar, as well as lowering unemployment rates.

Introduction

The Reserve Bank of Australia is the central bank of our nation that is responsible for maintaining stability in the financial system, ensuring efficiency and safety in financial transaction as well as implementing monetary policy. One of the main actions taken by the RBA is determining the official cash rate. This is done once a month (except for January) and has a significant impact on the operation of all other financial systems as well as individual financial transactions in Australia. The official cash rate is an important instrument of monetary policy that sets the market interest rate on overnight loans. To varying degrees, this benchmark rate underlies the determination of other interest rates for lending and borrowing in the economy. The target cash rate is carefully calculated to promote financial prosperity and economic welfare of the common people. Among other key factors, the cash rate significantly influences: the stability of the Australian dollar, the strength of our economy and the level of employment (based on

inflation rates). For the past fourteen months the reserve bank of Australia has kept the cash rate at a steady 1.5 percent. This record-low cash rate has made the economy stagnant, meaning there is no significant level of activity in the market. The best course of action would be to increase the cash rate from 1.5% to 1.75%. This is likely to boost the economy and increase the flow of funds. It is our duty, as board members to fully grasp all the possible effects and predict all possible outcomes of varying the cash rate to ensure that the RBA is making a well-informed decision that is fully functional. Our current method of keeping the cash rate at a steady, record-low level of 1.5 percent enforces consumer confidence in borrowing (taking out loans) as the low interest rate is often passed onto consumers by the major banks. This in turn means that there is more money available for expenditure which stimulates consumption in the economy, increasing inflation. With this in mind, the best course of action to stimulate the economy would be to increase the cash rate by 25 basis points to give a benchmark rate of 1.75 percent.

Argument 1

The increase in cash rate of 25 basis-point would stabilise the overall economy in Australia. Specifically, lowering cash rate to stimulate demand is not necessary, and raising cash rate would remove the potential risk in the economy.

Table 1: demand and output growth (per cent)

	March quarter 2017	December quarter 2016	Year to March quarter 2017
GDP	0.3	1.1	1.7
Domestic final demand	0.3	1.1	1.7
– Consumption	0.5	1.0	2.3
– Dwelling investment	–4.4	1.9	–2.5
– Mining investment	3.7	1.5	–17.5
– Non-mining investment	–0.4	1.4	4.3
– Public demand	0.4	1.0	4.0
Change in inventories ^(a)	0.4	–0.3	0.6
Exports	–1.6	3.7	5.6
Imports	1.6	1.9	7.9
Mining activity ^(b)	1.0	2.6	3.6
Non-mining activity ^(b)	0.1	0.9	1.5
Nominal GDP	2.3	3.2	7.7
Real gross domestic income	1.7	3.1	6.5
Terms of trade	6.6	9.6	24.8

(a) Contribution to GDP growth

(b) RBA estimates

Sources: ABS; RBA

As shown by recent data in table 1, it is suggested that the overall economic condition in Australia has been improved in the June quarter. There is a strong development in the retail market, in regards to the improvement of business condition. Besides, the condition in labour market has become better in the June quarter, strong decrease in unemployment rate has been recorded over last months because growing wages level even though it is remain lower compared to historical standards. As the economy constantly growing in Australia, all of the records show that the economy are strong enough to allow RBA to reject emergency stimulating policy, there is no necessarily need to boost the economy, but it is more important to be aware of the downside risk existing in the economy, eliminating the demand for ultra-low cash rate (Yeates, 2017). The following statement would adjuify the need of removing potential risk.

For the cost of debt, the increase in cash rate means higher loan and mortgage repayments. When the RBA increase the cash rate, both household and business would react immediately, which is a fall in investment (Valadkhani, Arjotnandi & O'Brien, 2013). Higher repayment discourages people to borrow or make money for long-term investments, even for those who have not made a loan or mortgage, they would also be discouraged from doing so. For example, housing market is one of the most significantly affected market. The Australian house market has already reached

the peak, there is a boom in Australian housing market (Janda, 2017). Evidence shows that housing price in Australian major cities has been growing since September, which indicates that the more strict lending rules are trying to eliminate debt-driven bubble in the housing market (The Age, 2017). In addition, a slowdown in housing market is more desired by APRA, which has made tighter standards on interest-only loans and household investment, resulting in banks rising rates on loan and mortgage (The Age, 2017). According to RBA website, increase in official cash rate make borrowers in Sydney, Melbourne and Brisbane are discouraged by higher debt repayments. It could be understood that, due to the bubble in the housing market, increasing in cash rate by RBA makes the repayment higher which would discourage household from investing in housing market. There would be less household crowd into housing market, cooling housing price, then removing the housing bubble in Australia. Therefore, considering the current condition in Australia overall market, there is no need to decrease cash rate to boost the economy, and in order to eliminate the potential risk in the economy, it is necessary to raise cash rate to 1.75%.

Argument 2

Increasing the cash rate by 25 basis points to 1.75 per cent will increase the exchange rate of the Australian Dollar. As of 30 September 2017, 3:30pm, the currency exchange is 1.00 AUD = 0.78 USD. The official cash rate plays a role in the balance of flow of funds. For example, a general increase in the cash rate will increase interest rates. This results in consumers spending less due to having less to spend and being discouraged, and in return the demand for goods and services also decreases. As such, there is an overall decrease in the flow of funds of Australia's economy.

However, with a general increase in the prices of goods and services, this will attract potential investors from overseas, who will invest in the Australian market because of a potential greater return they may receive. In the case of real estate, the strengthening of the Australian currency will persuade foreign investors to make an investment in housing and property, as there is a high chance that the prices of housing will increase significantly over the years. Moreover, because of the correlation between education and property in Australia, many foreign individuals will invest in Australian property in order to secure a position in their desired educational institution. By having foreign individuals invest in the Australian property market, this will increase inflation specifically for the cost of housing, and taking into account that the housing industry accounts for a large quadrant of Australia's economy, this will in return strengthen the Australian dollar. By increasing interest rates, banks will make a higher return when foreign investors make borrowings. However, an increase in the Australian dollar to the extent where foreign investors are discouraged and the inflation rates are unfair, is undesirable and must be avoided. If such a situation were to happen, the Australian dollar will weaken significantly, as there are no domestic nor international consumers. As such, the Australian economy will overall weaken, and the RBA will be forced to lower to official cash rate to promote spending. As such, the increase of the cash rate by 25 basis points is neither too generous nor expensive. The RBA hopes the increase in general interest rates will increase levels of inflation only to the point where Australia's economy and currency strengthens even more. The RBA also hopes that the strengthening of the Australian dollar will attract foreign investors; especially in the housing industry, to invest in Australian real estate and further strengthen our currency.

Argument 3

Each month the board of directors of RBA meet to decide on the monetary policy for the current month. This process of configuring the monetary policy also includes setting the Official Cash Rate for the month. Official Cash Rate (OCR), is the rate of interest that the central bank charges on overnight loans to commercial banks. When the RBA increases the cash rate, interest rates on deposits usually rise in correspondence, this encourages people to save their hard earned money rather than spend. However, when the interest rate decreases, it is more rewarding to spend rather than save as we can borrow more money and have lower rates of repayment. Moreover, the interest rates alone are not the factor which determine the level of spending in the economy, there are many other key factors like the circumstances of an individual and how they decide to maintain and control their personal financial decision making process. The cash rate increase also has an effect on the employment in Australia. The increase in cash rate means that the banks are charged higher interest rates when they borrow from each other, which means the cost of debt for the economy rises, as the banks transfer the higher cash rate on interest rate charged on loans and mortgages. When the interest rates increase, people in the economy are not willing to borrow, from individuals to corporations and organisations. Organizations and corporations are forced to borrow more money through debt due to the financial circumstances of the business requiring funding. Hence, to offset this excess borrowing, (the acquisition of higher liabilities) as part of the cost cutting mechanism, businesses are likely to find other ways to reduce their spending. One of the first areas to receive cuts would be the wages expense, which results in redundancies. Overall, this is likely to increase the unemployment rate in Australia, as many people are left jobless.

Conclusion

Ostentatiously, increasing the official cash rate by 25 basis points is ideal for maximising economic welfare for a number of reasons. The cultivation of positive growth in our economy reinforces that this decision will prove to be invaluable for cooling the housing market: through increasing interest rates and discouraging borrowing (for the purposes of home loans and mortgages) , attracting foreign investors: by strengthening the value of our Australian dollar and curbing unemployment in our country.

Reference list

Abbas, V. Amir, A. and Martiti, O. (2013) *Applied Economics Letters*, 20(1), 869-874.

Retrieved from: <http://dx.doi.org/10.1080/13504851.2012.754540>

CommBank. (2016). *How does the RBA cash rate affect you?* Retrieved from:

<https://www.commbank.com.au/guidance/economy/how-does-the-rba-cash-rate-affect-you--201605.html>

Janda, M. (2017) *Housing market 'top' called by investment bank UBS*. Retrieved from:

<http://www.abc.net.au/news/2017-04-24/housing-market-top-called-by-investment-bank-ubs/8466198>

Property. (2017, October 2). Sydney property prices slide for the first time in 17 months while Melbourne rises. *The Age*. Retrieved

from: <http://www.theage.com.au/business/property/sydney-property-prices-slide-for-first-time-in-17-months-20171001-gysh6l.html>

Stiles, J. (2017, February 7). Reserve Bank leaves the cash rate at record-low 1.5pc.

Retrieved from: <http://thenewdaily.com.au/money/finance-news/2017/02/07/rba-cash-rate-february/>

Reserve bank of Australia. (2014). *Reserve Bank of Australia Annual Report – 2014*.

Retrieved from: <http://www.rba.gov.au/publications/annual-reports/rba/2014/functions.html>

Phillips, K. (2015, March 7). The Australian economy and the low interest rate future.

Rear Vision. Retrieved from:

<http://www.abc.net.au/radionational/programs/rearvision/the-australian-economy-and-the-low-interest-rate-future/6248462>

Martin, P. (2017, March 7) Reserve bank keeps cash rate at 1.5 percent in March, no sign of change. *The Sydney Morning Herald*. Retrieved from:

<http://www.smh.com.au/business/the-economy/reserve-bank-keeps-cash-rate-at-15-per-cent-in-march-20170307-gusgfc.html>