

Session 60097573

long answer question

W3 PBL1: RBA (Group 15min)

The last time the official cash rate changed was in Aug 2016.

Review the RBA decision regarding the official cash rate change from ...

<http://www.abc.net.au/news/2016-08-02/reserve-bank-cuts-interest-rates/7682170>

- Describe the reasons for the cut in interest rates
- What is the anticipated impact upon the economy?
- Did the banks decide to pass on the full interest rate cut to customers? Suggest a reason for their decision.

Work in your groups to discuss and develop the answer for each sub-question. (10min discussion, 5 min writing time)

Make notes to enhance your comprehension.

✓ I get it now ✕ I still don't get it

- 28831500 A. The cut in interest rate to 1.5% was due to the RBA wanting to stimulate economic growth by decreasing interest rates which in turn may stimulate more borrowing due to the decreased interest rate.
- B. The anticipated impact upon the economy would be that it would lead to stimulated growth in the Australian economy leading to more purchases and more borrowing due to the lower interest rates. Hopefully, leading to an increase in the Australian dollar.
- C. The banks did not pass on the full interest rate cut to customers, only around half the cut. This may have been done in order to maximise bank profits. As interest rates are lower, there is smaller profits gained from the loans banks give out, and by cutting the interest rate to customers they are still adhering to the reduced interest rate the RBA has set but still maximising as much profit as they can from their customers.
- 28821327
 - Interest rates are cut when the economy is not performing well, and the RBA wants to boost the economy. Consumer prices rose by only 1% in the previous year, well below the 2–3% target of the RBA.
 - Lower interest rates promoting people to borrow money, which in turn increases spending and demand, increasing productivity and employment, thus further increasing spending and economic growth
 - The banks did not reduce interest rates as much as the RBA, with the highest reduction being 13 basis points, while the RBA reduction was 25 basis points. This may be intended to raise revenue
- 28813715
 - The RBA cut interest rates in order to incite price growth, and subsequently to increase inflation to meet their inflation goals.
 - The cut to interest rates should therefore encourage consumption and investment due to the reduction in the cost of funds (debt finance). This subsequent increase in demand will then increase inflation to the RBA's target of 2 – 3%.
 - The banks decided not to pass on the full interest rate cut to customers because in order to receive more revenue, through interest payments, from borrowers. Passing on the full interest cut would mean that borrowers would have to pay a lower amount of debt for borrowing and lenders would receive greater reward.
- 28813073 –Interest rates were reduced in response to the falling value of the Australian dollar and low domestic consumption, in order to encourage borrowing of money (at lower costs) and also less deposits (more spending) to stimulate economic growth and demand. Therefore it is anticipated that with lower interest rates on loans/mortgages, consumers will have more money to spend, and will be less willing to deposit as it would not earn them as much in interest. The banks did not pass on the full interest rate cut to customers. This may be because by only passing on half/less of the cut, they can receive more from loans and mortgages while paying less to borrow from other banks. It also will ensure customers still keep some deposits with the bank.
- 28806514
 - to encourage price growth. They are hoping that more people will borrow more money because it is cheaper, this will then lead to more spending. The inflation rate was below target. The AUD had declined in strength.
 - They are hoping that there will be increased spending and investment into the economy due to the lower rates which encourage people to borrow money
 - No, they only passed on a portion of the cuts to customers. This may be due to them trying to gain extra profit from these cuts
- 28805925– psiv0001
The reason for the cut in the interest rate is to stimulate the growth in the economy by providing cheaper funds which will enhance the spending in the economy which therefore makes the economy more wealthier. This is likely to have a positive impact on the economy as people of the household sector and corporations have access to cheaper funds, low cost of debt, this means they will be more willing to borrow funds and spend it in the economy, which will increase the expenditure in the economy causing a higher inflation. No, the banks did not choose to pass the full interest rate cut to the customers, The RBA is a trendsetter of interest rates in the economy however, this does not mean that the other banks need to fully comply with their interest rate. The drop in the interest rate of RBA may not be feasible for the other banks to make a profit, therefore they have chosen not to pass on the full interest rate cut.
- 28805739
 - The interest rate was cut in the attempt to stimulate price growth.
 - "If you had a 300,000 mortgage with an average standard variable rate of 4.93 percent and manage to get the full discount of 0.25 percentage point off for per month, or a whopping \$16,325 over the life of your loan". Thus, households are more likely to borrow because loans are cheaper, leading to economic growth through increased spending.
 - Most banks did not pass on the full interest rate cut likely due to the fact that they are oligopolies which are able to reduce only a proportion of the cut without losing many customers.
- 28800540
 - The RBA cuts interest rates when implementing expansionary monetary policy. It does this to stimulate the economy. Australia is in a trough in the economic cycle and needs stimulation. A measure of economic performance is inflation. Too little inflation (under 2%) is undesirable and indicates that economy is weakening, with income flat or declining, resulting in poorer demand for goods & services, which flow on to poorer wage growth and higher unemployment.
 - Increased consumption and investment, increasing GDP and increasing inflation to a desirable level (2–3%). This will improve the economy to a desired level. It aims to stabilise inflation through cutting interest rates and increasing inflation.

- c. The banks did not pass on the full interest rate cut to customers. They did this as they are commercial banks looking to make a profit like other businesses.
- a. To stoke price growth
- b. It is anticipated that the housing market will be impacted by this.
- c. No the banks did not. More benefit from rate reduction.
- ID – 28798848
- 28791851
 - a. there was a cut in interest rates because the RBA was trying to increase the weak consumer price based on the data in March. Because the inflation rates are so low, it was also essential to cut the Australian dollar to help it recover from a half cent fall.
 - b. the anticipated impact is that more cuts are expected and a likelihood of lower interest rates emphasising risks in the housing markets has diminished
 - c. the banks did not pass on the full interest rate to cut customers in an attempt to make profit for themselves
- student ID: 28790944
 - a. the reason for the cut was that inflation rate was well below the target rate of 2–3%
 - b. the anticipated impact is that the cut in interest rates will stimulate economic growth as it becomes cheaper to borrow and hence invest and spend the money. It also becomes less desirable to save the money in banks as there will be a lower return.
 - c. the RBA but the cash rate by 25 basis points and the bank decided to pass on the cut by half of what the reserve bank did. the bank's cut varied from 10 basis points to roughly 13 basis points
- 28790537
 - 1) the fall in interest rates was due to there being low consumer price data, the rba dropped the rates in an attempt to stimulate the economy by encouraging greater borrowing and spending
 - 2) hypothetically, this change to the interest rate should aid the economy as the lower rates will attract more borrowing and therefore greater amounts of spending, which will increase consumption and ultimately GDP
 - 3) no, the banks only passed on a portion of the interest rate cut, usually half but sometimes even lower like NAB, a possible reason for this is to lower the home loan rates whilst still increasing the deposit rate
- 28782216, a) The reason for the cut in interest rates is to fuel price growth, b) the anticipated impact upon the economy would be major banks lowering their standard variable mortgage rate, c) unsure
- 28777735 –
 - a) to stoke price growth. Also due to weak consumer price data in the previous quarter.
 - b) stimulate growth in the economy by increasing demand for investment and consumption.
 - c) No the banks did not decide to pass on the full interest rate cut to customers.
- 28772415 – a) They cut it in an effort to promote price growth
 - b) The anticipated impact is that the Australian dollar will fall by a half-cent.
 - c) The banks did pass on the full interest rate cut. Their reasoning was so that the housing market could continue its modest rise and by cutting the full interest rate, it would leave the housing market more vulnerable and unstable.
- 28765451
 - a) in an attempt to increase the inflation back to the RBAs target of 2–3%
 - b) more cuts to the cash rate is expected of 1% or less
 - c) the big banks such as the Commonwealth Bank only lowered its rates by 13 basis points, and NAB by only 10 basis points as well as ANZ by 12 basis points. these banks may have not lowered rates by the full amount due to the expected further decrease in rates, ultimately to remain competitive
- 28763653
 - a. The reason behind recent interest rate cuts is in an effort to 'stoke price growth'. This is due to consumer prices rising by over 1% in the past year. To combat this and to inhibit further consequences spilling into the inflation, the RBA cut interest rates to allow sustainable borrowing for consumers
 - b. The low interest rate will incite borrowing from consumers which will pump money back into the economy and allow for prices to rise again as firms are able to provide goods and services at the quantity and volume they finally desire.
 - c. They did not pass on the full interest rate cuts to the consumer in order to maximize their profits.
- 28760859 Cameron Foyster
 - a) The interest rates were cut in response to consumer prices only increasing by 1%, which is below the desired 2–3%. By cutting interest rates, people will be encouraged to withdraw and spend more money, thus stimulating the economy. This cut was also made to prevent the Australian dollar from consequently falling to 76–77 US cents as a result of the low consumer price percentage.
 - b) The anticipated impact is that this interest rate cut would stimulate economic growth, raising consumer prices into the desired 2–3% bracket due to increases in demand.
 - c) The banks did not pass on the full interest rate cut to customers, as doing so would encourage their customers to withdraw and spend money, thus decreasing their possible profits. This creates difficulties for individuals with large mortgages, who may not be getting as large interest rate cuts passed onto them as they may have thought.
- 28760247
 - a. Helped to reduce the housing market struggle, by lowering mortgage rate
 - b. that people will spend and borrow more, as borrowing is cheaper
 - c. The Banks did not decide to fully reduce the interest rate, maybe so more people keep their money in the banks (instead of taking it out of the flow and spending it)
- 28760123
 - a) To try and 'stoke price growth' in the economy
 - b) It's anticipated more people will take out loans, thus helping grow the economy
 - c) Banks didn't pass on full interest rate cut to customers because it means that they make less money
- 28759982
 - a) The prime reason for the cut in the cash rate over the month of August is due to low inflation rates for the quarter of June, where the inflation rate was only 1%, compared to the RBA's long term inflation rate of 2% to 3%. Therefore, due to the sluggish performance of the economy, the RBA was forced to cut interest rates to promote consumption and investment
 - b) Through the cut of the interest rate by 25 basis points, it is anticipated that the cash rate will force all rates across the economy to also drop by the 25 basis points. This will result in a greater money supply within the economy (due to funds held in ESA), where lower interest rates will promote consumers and investors to lead to greater consumption and investment within the economy. This will force the economy to undergo an expansion, thus reducing cost of debt and stimulating economic growth.
 - c) No, various banks, notably NAB, only passed a 10 basis point cut to its variable interest rate loans. Therefore, not passing the full cut to its consumers. Banks usually do not pass on these cuts to its consumers to ensure greater cash inflows (interest rate), or to limit the risk of the loans defaulting
- 28757203
 - a) the reason for the cut in interest rates was that inflation rate was well below the interest rate 2–3 percent
 - b) the anticipated impact upon the economy is further cut of rate, with six out of 41 expecting a trough of 1 per cent or less.

- c) the major bank will not pass on all of the Reserve Bank's rate cut, with the Commonwealth Bank lowering its standard variable mortgage rate by only 13 basis points.
- 28754859
 - a. In order to stimulate economic growth through increased spending. also due to the treasurer not taking an action with regard to the situation
 - b. People will be more willing to spend as borrowing money will become cheaper. if more is bought, more will have to be produced allowing for the economy to grow
 - c. no the cba and nab only reduced their standard variable interest rate by 13 and 10 basis points respectively. inorder to obtain more profits/decrease losses caused by lowered interest rates.
- 28754328
 - a) in response to weak consumer price, in order to stimulate growth in the economy
 - b) If you had a 300,000 mortgage with an average standard variable rate of 4.93 percent and managed to get the full discount of 0.25 percentage point off for per month, or a whopping \$16,325 over the life of your loan. Thus, households are more likely to borrow as financing is cheaper, leading to increased investment and consumption, hence economic growth
 - c) The majority of them decided not to, such as the Commonwealth Bank, lowering its standard variable mortgage rate by only 13 basis points. This is likely the case in order to make additional profit through the gap between the decrease in the official cash rate and the decrease in the interest rates they charge customers.
- ID: 28629922
 - A- To stoke price growth
 - B- economy will grow and purchasing power of a person will increase
 - C- NO, they will cut down in their revenue if they pass on full interest rate cuts to customers.
- 27930408
 - a) in a desperate effort to stoke price growth.
 - b) the rates will remain on hold at 1.5 per cent this year before being cut twice more in the first half of 2017
 - c) the major banks will not pass on all of the Reserve Bank's rate cut, with the commonwealth bank lowering its standard variable mortgage rate by only 13 basis points.
- Jennifer Pham 27853748.
 - a) Interest rate was cut due to consumer price only rising 1% which is below the official cash rate from the RBA. Meaning inflation is below desired amount for Australia
 - b) Anticipated impact is that the housing market will be immune from this cut. The dollar will go down because of the lower rates thus helping to boost the inflation rate to be within the 2-3%
 - c) Big banks such as NA, CBA and ANZ will not pass the full interest rate cut to customers. This is the way to keep building revenue (capital) despite the reduction in the value of the Australian dollar.
- 27842452
 - a. Cutting interest rates is designed to lower the cost of debt in the economy in order to entice more borrowing (and as a result more spending) within the economy.
 - b. The anticipated impact on the economy is that the rapid increase in east-coast housing prices will be able to slow down and not be such a huge concern for the RBA. Especially near Sydney, it was pointed out that there has been a rapid increase in the apartment construction, which will ultimately lead to a drastic rise in housing supply over the next few years, which will also put downward pressure on the increasing housing industry prices.
 - c. According to the listed article, majority of major banks are passing on around 50% of the interest cuts, implying that banks and consumers are both equally benefiting from the reduction in interest rates. A reason for this decision is that it is probably a good balance point for banks between increasing revenue through the cut, and by increasing revenue by lowering costs and influencing consumers to borrow more money, which will ultimately lead to more
- Mark Stutz 27842169:
 - a) The RBA has decided to cut interest rates due to the slow growth in the consumer price data. The RBA overall wanted to boost inflation to manage its slow growth and hence has cut interest rates to increase the availability of funds. Similarly the RBA is now less concerned about the housing market and the risk of lowering interest rates has decreased.
 - b) This cut is designed to increase overall spending (due to more available funds) and hence place upward pressure on the inflation rate. The Australian dollar also recovered from its half cent fall before the rate cut was announced.
 - c) the banks did not choose to pass on the full interest rate cuts to customers, with the NAB only reducing rates by 10 basis points.
- 27823601
 - A. The Australian population were under consuming which left the economy underperforming. Therefore the RBA decided to cut the interest rates by 25 basis points. When the population is not consuming as expected this affects inflation and flow of funds.
 - B. When interest rates decrease, this promotes spending in the economy. This is because people would rather not leave their money in banks and withdraw cash and invest in other assets. With increased spending CPI increases and also helps flow of funds and inflation.
 - C. Maybe they didn't see it as an immediate issue, and don't mind if in time consumption goes back to the planned value.
- 27814718
 - a) the interest rates were cut in an attempt to increase price growth
 - b) there will be increased borrowing in the economy due to lower cost of debt
 - c) the banks did not pass on the full interest rate cut to customers
- 27811972
 - a. The Australian Inflation rate was around 1%. RBA aims to keep a balance inflation rate between 2%-3%, thus in Aug 2016, they decreased the cash rate, making it cheaper to borrow money and hopes to boost investment and cash flow in the country.
 - b. The anticipated impact upon the economy would be that because borrowing costs have reduced, it entices investment for goods and services. Thus in April 2017, inflation rate hit above 2% which was a favourable outcome for the RBA.
 - c. The cash rate reduced, but it wasn't passed onto the customers because to earn a little bit of profit, the banks chose to set their interests a bit higher than the cash rate.
- 27805050
 - a. To stoke price growth
 - b. Federal Treasurer says that it will not cause the economy trouble. But, it will increase the money supply and cause consumption and investment to grow, stimulating the economy
 - c. At least one smaller bank has passed on the cut in full in order to maximise the bank's gain
- 27800946
 - a. Interest rates were cut due to the low inflation of 1% over the past year, which is below the the RBA preferred 2-3%.

- b. The lowering of the cash rate can boost the inflation, as the lower cash rate, encourages people to borrow and spend. The money supply is increased as the cost of debt is decreased, as a result the economy is expected to be expansionary.
- c. The banks did not pass the full interest rate cut to customers, because the decrease in 25 basis points is for the lending and borrowing between the banks. In order for banks to make some benefit for lending to customers, only part of the interest cut is passed on to customers.
- 27799913
 - a) RBA cut the interest rates as the inflation rate has decreased below the acceptable range of 2–3% to only 1%, this is undesirable as it shows that economy is weakening. This means that there is a decrease in demand for goods and services due to limited buying power. The drop indicates that consumption and investment are declining. This cut aims to raise the inflation rate back to 2–3%.
 - b) RBA decreased its cash rate so that banks can borrow money at a lower interest rate from each other, which decreases the interest of debt that passes on to its customers. Since the cost of debt decreases, business and individuals borrow more, which leads to a higher money supply. Consumption and investment is expected to rise back to 2–3%.
 - c) No. Big banks pass on around half the cut to its customers only. at least one smaller bank has passed on the rate cut in full. Banks withhold to pass full interest rate because they need to reserve part of the capitals and also to raise revenue. If the banks pass on full interest rate, they are contemplating inflation risk.
 - 27798976
 - a. In an attempt to stoke price growth
 - b. everyone is more cautious, consumers to re-evaluate their current home loan to make sure their bank is passing on the reduction is full. It relaxed the housing market.
 - c. it appears that major banks will not pass on all of the Reserve bank's interest rate
 - 27787486 Cillian Alvin Jansen.
 - a) The interest rates were cut in order to stoke price growth, in response to very low inflation.
 - b) The economy is expected to grow at an increased rate as a result of decreasing the cash rate, as the cost of capital is reduced, and demand subsequently stimulated. Inflation rates are expected to grow.
 - c) No, they mostly only passed it on partially. This may be they do not expect consumer confidence to be high enough to respond significantly in their demand as a result of decreased interest rates.
 - 27765504
 - a) The inflation rate for the previous year was only 1%, indicating poor economic growth.
 - b) To promote economic growth by reducing the cost of capital.
 - c) The major banks only passed on roughly half the cut. This may be because they wish to maintain higher returns to make more money than passing on the full interest rate cut.
 - 27601250
 - a: because of the weak consumer price data
 - b: stoke price growth, make inflation rate below 2–3 per cent target
 - c: no big banks pass on around half the cut, cause they need to make profits
 - 27026604
 - a) There was a cut in interest rates In an attempt to save the AUD against other international dollars (the US dollar). If there was no cut in interest rates, the AUD would further decline.
 - b) The anticipated impact upon the economy is that there could be more cuts; rates could fall further
 - c) Big banks pass on around half the interest rate cut. CBA was first big bank to move, lowered its standard variable mortgage rate by only 13 basis points
 - 26946866:
 - A) Inflation was 1%, well below the inflation target, and risk if they didn't reduce cash rate, the AUD would have been 76–77 cents.
 - B) It is expected that with lower cash rates, the banks will be encouraged to borrow money from the RBA and each other and lend more to investors and consumers at a lower interest rates on loans. Investors and consumers will be encouraged to borrow from banks as the source of funds are cheaper than before and thus would help to stimulate the economy and bring the price level/ inflation back to its target rate of 2–3%.
 - C) Banks passed around around half of the cut in the cash rate to the consumers. This is because the banks want to make money by borrowing at a lower rate and only reducing the rate they charge by a little bit thus increasing their revenues and profits
 - 26941422
 - A. The ABS June quarter data showed only a 1% growth rate which is significantly lower than the RBA desired rate of 2–3% and the latest fall of the Australian Dollar against the US Dollar are reasons for the RBS interest rate cut.
 - B. Therefore this reduced cost of debt will stimulate borrowing and lead to the expansion of money supply as households are encouraged to buy more and raise demand.
 - C. The big four banks have not passed on the cuts in full to its customers, a possible reason for this is that the banks will also profit from the remaining proportion of benefit from the interest rate cut.
 - 25960423
 - a. they cut the interest rates in order to stimulate the economy, as the inflation rate was only 1%, whereas the desired inflation rate is 2–3%.
 - b. since the interest rates are lower, there is less of a cost on people taking loans from the bank which will encourage them to take more loans as it is cheaper to do so. since they have more loans, they have more cash to spend and this will hopefully simulate the assignment.
 - c. the banks did not pass on the full interest rate to customers. they only passed on some of the interest rates. the reason for this is because they wanted to keep more of the money to themselves
 - 25580221
 - a. RBA cut the interest rate in an attempt to stoke price growth; due to the weak consumer price data in the March quarter;
 - b. The rate cut does not mean that Australia's economy is in trouble, since it is growing at 3.1%
 - c. No, they only passed on half of the cut on to customers. The banks decided not to pass on the full interest rate cut to customers because it was up to them to decide how much to pass on to customers. The banks have cut their mortgage rates instead and increase customers' deposit rates.
 - 24201839
 - a) Lowering the cash rate allows for a more accommodating environment for local economy. Lower cash rates, lowers the AUD, increases the demand and thus supports inflation and economic growth. The housing market in Sydney and Melbourne is also likely to slow down due to tighter regulations on the housing market which will decrease the demand in this area so decrease cash rate will buffer this.
 - b) Lower interest rate will lead to increase consumption and investment spending as banks are able to borrow at a lower rate and thus stimulating the economy.
 - c) No the banks did not pass of full interest rate cuts to customers. This may be because they withhold
 - 23441194
 - a. Economy not growing enough as inflation was well below its 2–3% target
 - b. Australian dollar increase, rate cuts passed onto consumers so bank loan interest decreases, stimulate economy so inflation eventually increases
 - c. They want to increase their profit (?)
 - Hao Yen Lei – 2793 0645
 - a) The Reserve Bank of Australia wanted to increase consumer prices to achieve their target of 2–3%
 - b) With a lower cost of debt, retail and investment borrowing is encouraged, Banks reduce the interest rate on variable rate retail and

commercial lending. Consumption and Investment grows, stimulating the economy by increasing demand in goods and services, money supply grows.

- a. The RBA cut interest rates in order to stoke price growth. This would increase consumer spending and investment, further stimulating the economy as well as increasing inflation and thus prices.
 - b. The anticipated impact upon the economy would be for consumers to start spending more on goods and services, and for investments to increase. This would increase inflation and the price of goods and services and the economy may experience a boom.
 - c. Banks did pass on the interest rate cut to customers however most banks did not give the full cut. For example, the Commonwealth Bank lowered its standard variable mortgage rate by only 13 basis points which is half of the Reserve Bank's 25-basis-point official rate cut. However one smaller bank has passed on the rate cut in full. This could be because major banks need more funds in their reserves in order to give out more loans.
 - a.) The recent cuts in the interest rates derived from an effort to recover the Australian dollar against the United States and other international countries. If the RBA had not responded some believe the Australian dollar would have taken a further plunge against the US and that the RBA was "dragged kicking" into making this decision.
 - b.) The anticipated impact upon the economy is that the rates are going to fall further and hence increases consumer spending and investments to drive the market back up.
 - c.) The banks chose to only pass on a little amount on to the customers, this may be because they still have not completely got the full benefits of the new interest rate cut and hence must be careful with their own money capital. Also, the banks will have to make up for 8% that is being stored as a result of CAR and hence have to try to reearn the amount they cannot invest.
- 28771818- Anirudh Nair

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