



Principles of Business : course n°7

Formative assessment : last chance !

Monetary Policy & Fiscal Policy : Price stability, Inflation, Interest rates

BA 2nd Year - 19/02/2020

Question on previous course

Can you define what is price elasticity ?

In what case a good or a service is said to be perfectly inelastic ? Unit elastic ? Perfectly inelastic ?

What is a Veblen good ?

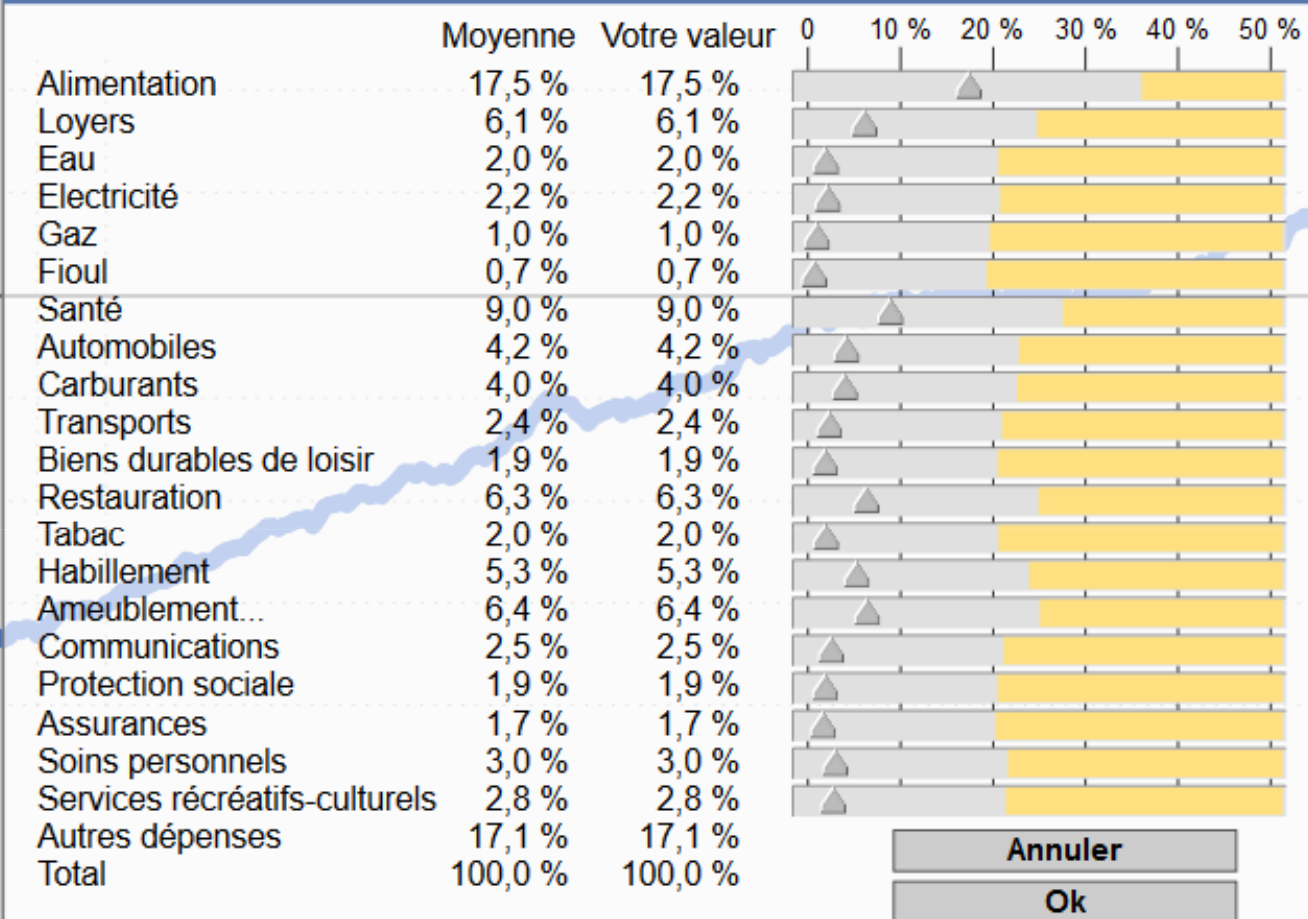
Inflation

Inflation is calculated via measuring the evolution of prices of a basket of good.

How inflation is calculated in Ukraine ? (See : <https://voxukraine.org/en/inflation-in-ukraine-past-present-and-future-part-ii/>)

How France's INSEE is calculating inflation ? They propose a simulator that allows to make your own calculation of inflation with own basket. (See : <https://www.insee.fr/fr/statistiques/2418131>).

Choisissez les pondérations en fonction de vos habitudes de consommation



Inflation : France's basket of goods

Source : <https://www.insee.fr/fr/statistiques/2418131>

Interest rates

What is an interest rate ? Just the cost of borrowing money for the one who borrows = the revenue of lending money for the lender.

Interest rate are always annualized.

For example, if i borrow 100€ at 10 % during 6 months i will have to pay back $100€ + 100€ \times (10 \% * 180 \text{ days} / 360 \text{ days}) = 100€ + 5€ = 105€$

Interest rate on the short term are dependant on the central bank decision.

Interest rate on the long term depend on the market.



Interest rates on eurozone : central bank rates

Date	Deposit facility	Main refinancing operations		Marginal lending facility	
		Fixed rate tenders Fixed rate	Variable rate tenders Minimum bid rate		
With effect from					
2019	18 Sep.	-0.50	0.00	-	0.25
2016	16 Mar.	-0.40	0.00	-	0.25
2015	9 Dec.	-0.30	0.05	-	0.30
2014	10 Sep.	-0.20	0.05	-	0.30
	11 Jun.	-0.10	0.15	-	0.40
2013	13 Nov.	0.00	0.25	-	0.75
	8 May.	0.00	0.50	-	1.00
2012	11 Jul.	0.00	0.75	-	1.50
2011	14 Dec.	0.25	1.00	-	1.75
	9 Nov.	0.50	1.25	-	2.00
	13 Jul.	0.75	1.50	-	2.25
2009	13 Apr.	0.50	1.25	-	2.00
	13 May	0.25	1.00	-	1.75
	8 Apr.	0.25	1.25	-	2.25
	11 Mar.	0.50	1.50	-	2.50
	21 Jan.	1.00	2.00	-	3.00
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The central bank set policy rates.

In Eurozone ECB set 3 rates :

- 1) The deposit facility (at which banks have to lend their excess cash)
- 2) The main refinancing operation rate (at which banks can borrow for 1 week)
- 3) The marginal lending facility (at which banks can borrow for 1 day)

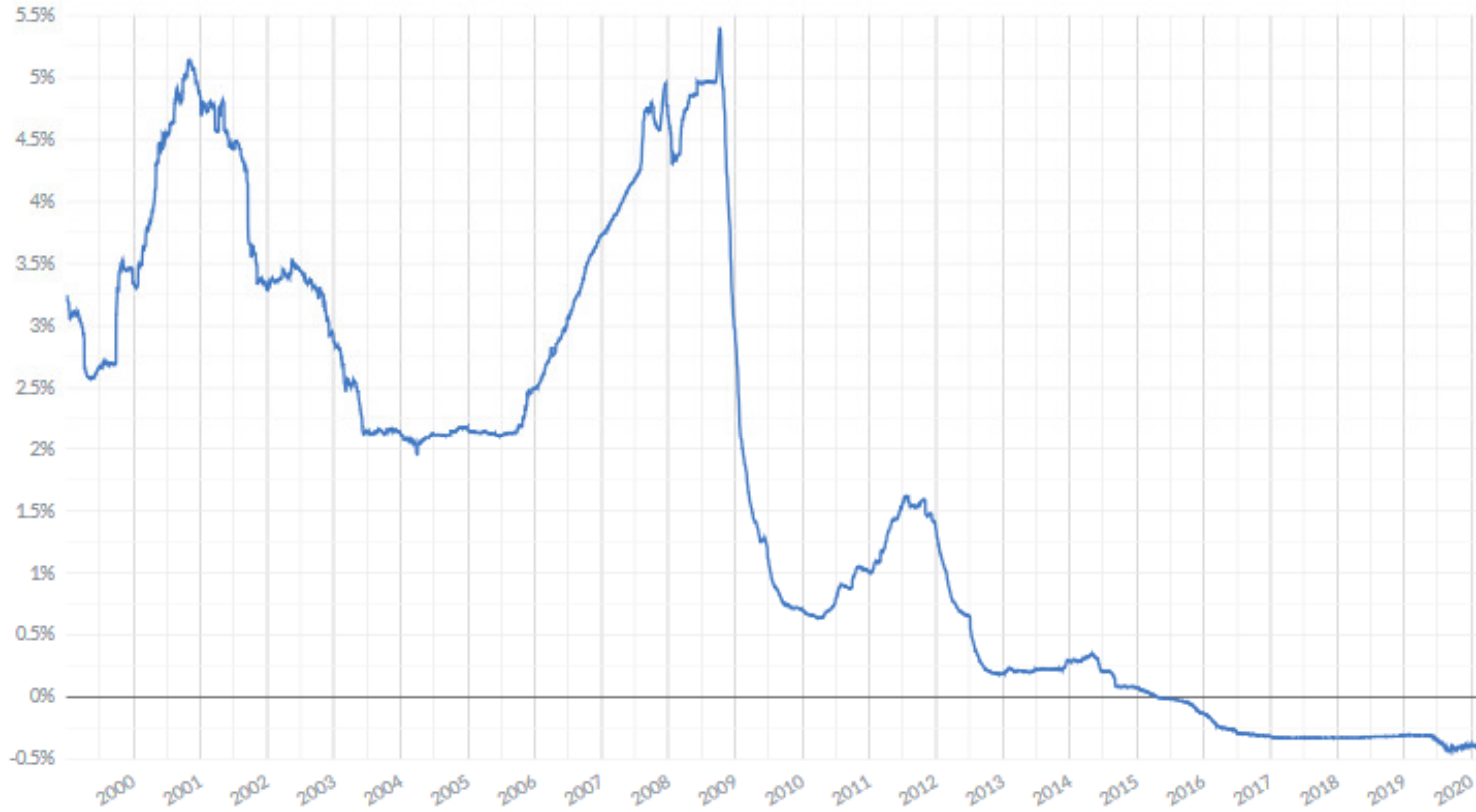
Interest rates in eurozone : Euribor

Euribor : Euro Interbank Offered rate is the benchmark for interbank short term (1 week to 1 year) unsecured lending. It is only interbank (the rate at which a big eurozone bank like BNP Paribas for example will lend at another big eurozone bank like Deutsche Bank),

Euribor is now negative !!

Chart

Euribor 3 months



Interest rates : Euribor 3 months historical graph

Source : <https://www.euribor-rates.eu/en/current-euribor-rates/2/euribor-rate-3-months/>

Interest rates in eurozone : long term rates

Long term rate benchmark can be either swap rates (see : https://produkte.erstegroup.com/Retail/en/MarketsAndTrends/Fixed_Income/Capital_markets_derivatives/index.phtml?elem998936_index=Table_SwapRates_Europe_Europe_EUR&elem998936_durationTimes=0) or long term government bonds rate.

Example : France government 10 years = -0,16 % ; 30 years = 0,64 %

See on Investing.com : <https://fr.investing.com/rates-bonds/world-government-bonds>