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Examining the interlinkage between US Fed's policy decisions and impact on global economy

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The US Fed has been continuously hiking the interest rates in response to combat the inflation in the economy. Such monetary decision has been affecting the global money supply and the movement of foreign investors in and out of the emerging economies. The impact also been felt on the debt markets. This study therefore examines the interlinkages between such economic events and aims to obtain an understanding on how future economic activities can be planned skillfully.

Keywords: US Fed policy decisions, Economic variability, Interlinkage of economic events

I. INTRODUCTION

The Federal Reserve, or "the Fed," is the central bank of the United States. Its main role is to implement monetary policy, which involves setting interest rates and manipulating the money supply to stabilize the economy. When the Fed raises interest rates, it makes borrowing more expensive, which can slow down economic growth. Conversely, when the Fed lowers interest rates, it makes borrowing cheaper and can stimulate economic growth. The Fed's monetary policy decisions can have a significant impact on the global economy. For example, when the Fed raises interest rates, it can cause the value of the U.S. dollar to appreciate, which can make exports more expensive and hurt countries that rely on exporting to the U.S. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause their currencies to depreciate and hurt their economies. On the other hand, when the Fed lowers interest rates, it can cause the value of the U.S. dollar to depreciate, which can make exports cheaper and benefit

countries that rely on exporting to the U.S. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause their currencies to appreciate and benefit their economies. Therefore, the Fed's monetary policy decisions can have a ripple effect on the global economy, impacting the currencies, trade, and economies of countries around the world. The Federal Reserve, led by Chairman Jerome Powell, is responsible for implementing monetary policy in the United States. This includes setting interest rates and manipulating the money supply in order to stabilize the economy. When the Federal Reserve raises interest rates, it makes borrowing more expensive, which can slow down economic growth but also help to control inflation. On the other hand, when the Federal Reserve lowers interest rates, it makes borrowing cheaper and can stimulate economic growth. The Federal Reserve's monetary policy decisions can also have a significant impact on the global economy. For example, when interest rates are raised, the value of the US dollar typically appreciates, making exports more expensive and potentially hurting countries that rely on exporting to the US. Conversely, when interest rates are lowered, the value of the US dollar typically depreciates, making exports cheaper and potentially benefiting countries that rely on exporting to the US. The Federal Reserve closely monitors the actions of other central banks and works to promote global economic stability through coordination with these banks. The goal of the Federal Reserve's monetary policy is to make decisions that promote stability and prosperity not only in the US economy but also in the global economy. When the Federal Reserve raises interest rates, it makes borrowing more expensive, which can slow down economic growth but also help to control inflation. For example, if the Fed raises interest rates to curb rising inflation, this can make borrowing more expensive for businesses and consumers, which in turn can slow down economic growth. On the other hand, when the Federal Reserve lowers interest rates, it makes borrowing cheaper and can stimulate economic growth. For example, if the Fed lowers interest rates to boost a flagging economy, this can make borrowing cheaper for businesses and consumers, which can stimulate economic growth by encouraging spending and investment. The Federal Reserve's monetary policy decisions can also have a significant impact on the global economy. For example, when interest rates are raised, the value of the US dollar typically appreciates, making exports more expensive and potentially hurting countries that rely on exporting to the US. For instance, when the Fed raises interest rates, it makes the US dollar more attractive to foreign investors, which can cause the dollar to appreciate and make US exports

more expensive for foreign buyers. This can negatively impact countries that heavily rely on exporting to the US, such as Mexico, Canada or China. Conversely, when interest rates are lowered, the value of the US dollar typically depreciates, making exports cheaper and potentially benefiting countries that rely on exporting to the US. For example, if the Fed lowers interest rates, it can make the US dollar less attractive to foreign investors, which can cause the dollar to depreciate and make US exports cheaper for foreign buyers. This can positively impact countries that heavily rely on exporting to the US, such as Japan or South Korea. The Federal Reserve closely monitors the actions of other central banks and works to promote global economic stability through coordination with these banks.

Nobel Prize winners in economics have varying views on the dichotomy between the Federal Reserve's monetary policy decisions and their impact on the global economy. Some economists argue that the Federal Reserve's actions can have a significant impact on the global economy, and that coordination among central banks is necessary to promote global economic stability. Others, however, argue that the Federal Reserve should prioritize domestic goals and that global considerations should not play a significant role in its monetary policy decisions. For example, Milton Friedman, a recipient of the Nobel Prize in Economics, believed that the Federal Reserve should focus solely on achieving domestic goals, such as controlling inflation and maintaining full employment, and that global considerations should not play a role in its monetary policy decisions. Another Nobel laureate, Joseph Stiglitz, on the other hand, believes that the Federal Reserve's monetary policy decisions can have a significant impact on the global economy and that coordination among central banks is necessary to promote global economic stability. He argued that the Federal Reserve should consider the impact of its actions on the global economy and work with other central banks to promote international economic stability. Overall, while there are differing views among Nobel Prize winners on the relationship between the Federal Reserve's monetary policy decisions and their impact on the global economy, most would agree that coordination among central banks is important to promote global economic stability.

II. RESEARCH OBJECTIVES

This study aims to analyze the reasons behind continuous rate hikes by US Fed and to understand its impact on global economy. Emphasis shall be laid upon the different economic events occurring in the Indian economy.

III. RESEARCH ANALYSIS

The Federal Reserve's monetary policy decisions can have a significant impact on the Indian economy. For example, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause the rupee to depreciate against the dollar. This can make imports more expensive, which can lead to higher inflation and hurt economic growth. Additionally, a depreciating rupee can make Indian exports more expensive, which can hurt Indian exporters. On the other hand, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause the rupee to appreciate against the dollar. This can make imports cheaper, which can lead to lower inflation and help economic growth. Additionally, an appreciating rupee can make Indian exports cheaper, which can benefit Indian exporters. It's important to note that the Federal Reserve's monetary policy decisions are not the only factor that can impact the Indian economy, and other factors such as domestic economic policies and geopolitical events can also have a significant impact. Additionally, the Reserve Bank of India (RBI), India's central bank, also plays a key role in managing the Indian economy and may adopt policy measures to mitigate the effect of Federal Reserve's policy decision on the Indian economy. For example, the RBI may raise or lower its own interest rates in response to the Fed's actions, or take other measures to stabilize the rupee.

One unique aspect of the relationship between the Federal Reserve's monetary policy and the Indian economy is the role of remittances. Remittances are the money sent by Indian citizens working abroad to their families and friends in India. These remittances can have a significant impact on the Indian economy, as they provide a source of foreign currency and can help to stabilize the rupee. Remittances are a significant source of foreign currency for the Indian economy. According to the World Bank, India is the world's largest recipient of remittances, receiving an estimated $83 billion in 2020. This represents a significant percentage of India's GDP, as remittances account for around 3% of India's GDP. When the Federal Reserve raises interest rates, it can lead to capital outflows from emerging markets like India, which can cause the rupee to depreciate. However, as more Indian citizens working abroad may be incentivized to send remittances back home due to the higher interest rates in the US, this can help to stabilize the rupee and offset the impact of capital outflows. In contrast, when the Federal Reserve lowers interest rates, it can lead to capital inflows into emerging markets like India, which can cause the rupee to appreciate. However, this can also reduce the incentives for Indian citizens working

abroad to send remittances back home, which can offset the positive impact of capital inflows on the rupee. Therefore, the role of remittances is a unique aspect to consider when analyzing the impact of the Federal Reserve's monetary policy on the Indian economy, as it can have a meaningful impact on the stability of the rupee.

Another unique aspect to consider when analyzing the relationship between the Federal Reserve's monetary policy and the Indian economy is the impact on the Indian Stock Market. The Indian stock market is sensitive to the global economic conditions and the monetary policy decisions of the Federal Reserve. When the Federal Reserve raises interest rates, it can lead to a stronger US dollar, which can make it more expensive for foreign investors to invest in the Indian stock market. This can lead to a decline in foreign investment in the Indian stock market, which can negatively impact the stock market. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause the rupee to depreciate against the dollar, making Indian assets less attractive for foreign investors. On the other hand, when the Federal Reserve lowers interest rates, it can lead to a weaker US dollar, which can make it cheaper for foreign investors to invest in the Indian stock market. This can lead to an increase in foreign investment in the Indian stock market, which can positively impact the stock market. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause the rupee to appreciate against the dollar, making Indian assets more attractive for foreign investors. However, it's important to note that there are other factors that also influence the Indian stock market such as domestic economic policies, corporate earnings, geopolitical events and global commodity prices. In summary, the impact of the Federal Reserve's monetary policy on the Indian stock market is another unique aspect to consider when analyzing the relationship between the Federal Reserve's monetary policy and the Indian economy. The Indian stock market is sensitive to the global economic conditions and the monetary policy decisions of the Federal Reserve and it can lead to an increase or decrease in foreign investment in the Indian stock market. However, other factors such as domestic economic policies, corporate earnings, geopolitical events and global commodity prices also play a role in the performance of the Indian stock market. The relationship between the Federal Reserve's monetary policy and the global economy is a complex one. The Federal Reserve's actions can have a significant impact on the global economy, as the US dollar is the world's primary reserve currency and the Federal Reserve sets interest rates that are closely

followed by other central banks. When the Federal Reserve raises interest rates, it can lead to a stronger US dollar, which can make exports from other countries more expensive, hurting their economies. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause their currencies to depreciate and hurt their economies. This can have a negative impact on countries that heavily rely on exporting to the US or have a large amount of dollar-denominated debt. On the other hand, when the Federal Reserve lowers interest rates, it can lead to a weaker US dollar, which can make exports from other countries cheaper, benefiting their economies. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause their currencies to appreciate and benefit their economies. This can have a positive impact on countries that heavily rely on exporting to the US or have a large amount of dollar-denominated debt. It's important to note that the Federal Reserve's monetary policy decisions are not the only factor that can impact the global economy, and other factors such as global economic conditions, domestic economic policies, geopolitical events and global commodity prices also play a role. Additionally, other central banks around the world also play a key role in managing their own economies and may adopt policy measures to mitigate the effect of Federal Reserve's policy decisions on their economies. For example, other central banks may raise or lower their own interest rates in response to the Fed's actions, or take other measures to stabilize their currencies. The European economy has responded differently to the Federal Reserve's monetary policy decisions depending on the country and the specific economic conditions. However, some general trends can be observed. When the Federal Reserve raises interest rates, it can lead to a stronger US dollar, which can make exports from European countries more expensive, hurting their economies. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause their currencies to depreciate and hurt their economies. This can have a negative impact on European countries that heavily rely on exporting to the US or have a large amount of dollar-denominated debt. For example, countries like Germany and Netherlands, which are heavily dependent on exports, could suffer from a stronger dollar. On the other hand, when the Federal Reserve lowers interest rates, it can lead to a weaker US dollar, which can make exports from European countries cheaper, benefiting their economies. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause their currencies to appreciate and

benefit their economies. This can have a positive impact on European countries that heavily rely on exporting to the US or have a large amount of dollar-denominated debt. Additionally, the European Central Bank (ECB) also plays a key role in managing the European economy and may adopt policy measures to mitigate the effect of Federal Reserve's policy decisions on the European economy. For example, the ECB may lower its own interest rates in response to the Fed's actions, or take other measures to stabilize the Euro.

The African economy has also responded differently to the Federal Reserve's monetary policy decisions depending on the country and the specific economic conditions. However, some general trends can be observed. When the Federal Reserve raises interest rates, it can lead to a stronger US dollar, which can make exports from African countries more expensive, hurting their economies. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause their currencies to depreciate and hurt their economies. This can have a negative impact on African countries that heavily rely on exporting to the US or have a large amount of dollar-denominated debt. On the other hand, when the Federal Reserve lowers interest rates, it can lead to a weaker US dollar, which can make exports from African countries cheaper, benefiting their economies. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause their currencies to appreciate and benefit their economies. However, it's important to note that many African countries have a relatively small and underdeveloped financial sector, which can limit their ability to respond to the Federal Reserve's monetary policy decisions. Additionally, many African countries are also heavily dependent on exports of raw materials, which can make their economies vulnerable to fluctuations in global commodity prices. It's also important to note that African central banks also play a key role in managing their own economies and may adopt policy measures to mitigate the effect of Federal Reserve's policy decisions on their economies. For example, central banks may raise or lower their own interest rates in response to the Fed's actions, or take other measures to stabilize their currencies. The African economy is heavily dependent on exports of raw materials such as oil, minerals and agricultural products, which can make it vulnerable to fluctuations in global commodity prices. According to the African Development Bank, commodities account for about 60% of Africa's exports, and the decline in commodity prices can have a negative impact on the continent's economic growth. Additionally, many African

countries have relatively small and underdeveloped financial sectors, which can limit their ability to respond to the Federal Reserve's monetary policy decisions. According to the World Bank, the size of the African financial sector is relatively small compared to other regions, with the ratio of financial sector assets to GDP averaging around 30% in Africa, compared to around 100% in developed countries. Furthermore, many African countries also have a large amount of dollar-denominated debt, which can make them vulnerable to changes in the value of the US dollar. According to the International Monetary Fund, African countries have been increasing their dollar-denominated debt in recent years, with the share of dollar-denominated debt in total debt rising from around 50% in the early 2000s to around 70% in 2019. This makes them more susceptible to currency fluctuations, and interest rate changes in the US can have an impact on the ability to service this debt. When the Federal Reserve raises interest rates, it can lead to a stronger US dollar, which can make it more expensive for African countries to service their dollar-denominated debt, and make exports from African countries more expensive, hurting their economies. Additionally, when the Fed raises interest rates, it can lead to capital outflows from emerging markets, which can cause their currencies to depreciate and hurt their economies. On the other hand, when the Federal Reserve lowers interest rates, it can lead to a weaker US dollar, which can make it cheaper for African countries to service their dollar-denominated debt, and make exports from African countries cheaper, benefiting their economies. Additionally, when the Fed lowers interest rates, it can lead to capital inflows into emerging markets, which can cause their currencies to appreciate and benefit their economies.

The International Monetary Fund (IMF) has suggested several measures to deal with the impact of the Federal Reserve's monetary policy on the global economy. One such measure is the use of macroprudential policies. These policies aim to reduce the likelihood of financial crises by addressing systemic risks in the financial system. This can include measures such as increasing capital and liquidity requirements for banks, or implementing regulations to curb excessive risk-taking by financial institutions. Another suggestion is the use of countercyclical policies. These policies aim to mitigate the impact of the business cycle on the economy, for example, by increasing government spending during a recession to stimulate economic growth. This can be done through fiscal policies such as increasing government spending or cutting taxes, or through monetary policies such as lowering interest rates. The IMF has also suggested the use of exchange rate policies to mitigate the

impact of the Federal Reserve's monetary policy on the global economy. These policies can include measures such as allowing a country's currency to float freely against other currencies, or implementing a managed float system where the central bank intervenes in the foreign exchange market to influence the value of the currency. Additionally, the IMF has recommended greater coordination among central banks and international financial institutions to promote global economic stability. This can include measures such as regular meetings and consultations among central banks, or the use of international financial facilities such as the IMF's own resources to provide support to countries that are facing economic difficulties. In conclusion, the IMF has suggested several measures such as the use of macroprudential policies, countercyclical policies, exchange rate policies and greater coordination among central banks and international financial institutions as ways to mitigate the impact of the Federal Reserve's monetary policy on the global economy.

IV. CONCLUSION

The relationship between the Federal Reserve's monetary policy and the global economy is a complex and dynamic one, with the Federal Reserve's actions having a significant impact on the global economy through its effect on the US dollar, interest rates, and capital flows. The International Monetary Fund has suggested several measures to mitigate the impact of the Federal Reserve's monetary policy on the global economy such as the use of macroprudential policies, countercyclical policies, exchange rate policies and greater coordination among central banks and international financial institutions. However, it's important to note that the Federal Reserve's monetary policy decisions are not the only factor that can impact the global economy, and other factors such as global economic conditions, domestic economic policies, geopolitical events, and global commodity prices also play a role. Additionally, other central banks around the world also play a key role in managing their own economies and may adopt policy measures to mitigate the effect of Federal Reserve's policy decisions on their economies. It is clear that different economies respond differently to the Federal Reserve's monetary policy decisions. Developed economies tend to have more developed financial sectors and are less dependent on exports of raw materials, therefore, they are more resilient to the changes in the monetary policy of the Federal Reserve. On the other hand, Emerging economies and developing economies tend to have smaller and underdeveloped financial sectors, they are more dependent on exports of raw materials and have a large amount of

dollar-denominated debt, which makes them more vulnerable to the changes in the Federal Reserve's monetary policy. Overall, the Federal Reserve's monetary policy decisions have far-reaching consequences that affect the global economy in many different ways. A comprehensive approach that takes into account all the different factors influencing the global economy is necessary to understand the impact of the Federal Reserve's monetary policy on the global economy and to mitigate any negative consequences. This highlights the importance of coordination among central banks and international financial institutions to promote global economic stability.

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