

The effectiveness of the monetary transmission channel on aggregate demand during the health pandemic

ABSTRACT

The study aims to identify whether the monetary transmission channel theory introduced by Keynesian. The study uses a simple review method to review whether the expansionary monetary policy carried out by Bank Negara Malaysia would be able to fulfil the government's objective to maintain price stability, increase output and also employment. The action taken by Bank Negara Malaysia is to reduce the interest rate and to provide moratorium for 6 months to the citizen of Malaysia. The underlying theory which is the monetary transmission channels. The review was made using the money channel, the credit view which was distinguished into bank lending channel and balance sheet channel, the interest rate channel and the exchange rate channel. All the channels clearly state the aggregate demand will not increase but decrease leading to a fall in the general price level as well as a fall in the output produced and employment. The objective of the Malaysian government together with the monetary policy will not be achieved using monetary policy actions carried out by Bank Negara Malaysia.