
Volume 71 No. 2, June 2008

Themed issue: The New Zealand business cycle and monetary policy

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ISSN 1174-7943 (print)

ISSN 1177-8644 (online)



Editor's note

This edition of the Reserve Bank *Bulletin* is built around the theme of monetary policy and its interaction with the business cycle in New Zealand. In its pursuit of price stability, the Reserve Bank must form views on the current economic situation and outlook, understand how its interest rate decisions influence economic developments, and judge how best to respond to emerging events. These are ongoing and incremental tasks. The economy and economic behaviour are never at rest (nor should they be). Keeping knowledge current, and policy settings appropriate, are continuous challenges.

In the first article in this edition, Michael Reddell and Cath Sleeman look at six New Zealand recessions since the Depression, at a time when the New Zealand economy is weakening again. In each of the recessions, both international disruptions and local pressures or imbalances were important factors. The exchange rate regimes in place, and fiscal and monetary policy responses, also strongly influenced how the recessions played out, and how severe they were. The article collects together for the first time economic data covering as much as seven decades until the present day, a much longer time period than is usual for economic analysis.

Our second article, by Rishab Sethi, summarises research by Reserve Bank staff and others about changes over time in the monetary policy "transmission mechanism" in New Zealand. The transmission mechanism is the collection of economic processes through which changes in official interest rates influence CPI inflation, via effects through market interest rates, the exchange rate, household and firm spending, and expectations about future economic conditions. The research summarised in the article suggests that the transmission mechanism has changed in a number of dimensions. However, changes in official interest rates continue to act with about the same overall strength on future inflation.

Leni Hunter discusses in our third article the relationship and interdependencies between the Reserve Bank's monetary policy and financial stability functions. Price stability and effective monetary policy depend on a well-functioning financial system, and the stability of the financial system is enhanced by effective monetary policy. The article notes

the need for a level of coordination between monetary and financial stability policy actions in response to business cycle developments, and discusses issues and possibilities for mutual support.

In this edition, we also present two articles on the subject of New Zealand's coins. Two important features of coins are what they look like and how they are made.

Matthew Wright tells the story of the imagery adopted for New Zealand's decimal coins when they were introduced in 1967. Deciding among the diverse range of candidate images was a lengthy, revealing and at times tortuous process, but the results have stood the test of time.

Don Oliver documents the analysis behind the physical specification of New Zealand's new 10 cent, 20 cent and 50 cent coins. The new coins had to be durable and a convenient size, and also work reliably in vending machines – meaning both that genuine coins would be accepted, and fake coins rejected. The new coins achieve all these objectives, while also being cheaper to manufacture than the coins they replaced.

Five years ago, we surveyed our readers on the *Bulletin's* content and style. I am very keen to hear again what you think. Hard-copy subscribers have received a short survey questionnaire that should take only a few minutes to fill out and send back. The survey can also be filled out via our website www.rbnz.govt.nz, accessible from the home page. I would appreciate a few minutes of your time to tell me what you think of the *Bulletin*, so I can improve it. Please send your response by 31 August 2008. We will publish a report of the findings in the December issue.

As usual, I hope you enjoy the range of articles in this edition.

Tim Ng
Editor



**RESERVE
BANK**
MUSEUM

The Reserve Bank Museum celebrates and records New Zealand's economic and banking heritage.

Displays range from timelines and interactive exhibits to comprehensive display panels outlining both the Reserve Bank's history and role, and how the New Zealand economic system has developed.

Artefacts include the only working example in New Zealand of the MONIAC hydro-mechanical econometric computer developed by New Zealand economist and inventor Bill Phillips in the late 1940s.

In early 2008, the museum received its 10,000th visitor.

The museum is open 9.30 a.m.–4.00 p.m. weekdays. It is closed weekends, public holidays, and for special events. Please call to confirm opening hours.

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<http://www.rbnz.govt.nz/about/museum/2766074.html>



Photography by Stephen A'Court.