THE EFFECTS OF MONETARY POLICY ON HOUSEHOLDS' CONSUMPTION DECISIONS IN UGANDA

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A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE IN ECONOMICS AND STATISTICS OF UGANDA CHRISTIAN UNIVERSITY

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UGANDA CHRISTIAN UNIVERSITY

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DECLARATION

I, BWIRE DERIUS EMMA, do hereby declare that this research report titled "The Effects of Monetary Policy on Households' Consumption Decisions in Uganda" is my original work and has never been presented to any other University or Institution of learning for any academic award.

Signature……..…….. Date…09/09/2023.

APPROVAL

This study was conducted with my supervision and the report was submitted for examination with my approval.

Supervisor's name: Mr. Opio Peter

Sign: .....

Date: 09/09/23

ABSTRACT

This paper examined if monetary policies significantly affect households' consumption decisions in Uganda. Monetary policies; actions taken by a central bank or other monetary authorities to manage the supply and demand of money and credit in an economy. Its primary objective being to promote price stability and sustainable economic growth. The effects of monetary policies (independent variables); interest rates, exchange rates, money supply and cash reserve ratio, and other economic indicators that may influence households' consumption decisions such as; Economic outlook, savings, investment, inflation, and employment rates in Uganda were studied. The study adopted both descriptive and analytical research designs. Secondary data was used. The data used was captured by the central bank of Uganda and the Uganda Bureau of Statistics to better understand the in-depth changes in data. The data summary and analysis was done using STATA 15.0 to produce inferential statistics regression analysis to determine the relationships between the dependent and independent variables. From the data analyses conducted, it was evident that there was no significant effect of monetary policies on households' consumption decisions as the hypothesis of the study states. This was further examined and we found out that, on a larger extent, only 1% of monetary policy impacts on the economy can directly inflict households' consumption decisions. An inverse relationship between household consumption decisions and impact of monetary policy in the economy was observed, this also applied to the relationship between household consumption decisions and monetary policy effectiveness in the economy.

KEYWORDS.

- Monetary policy
- Households' Consumption decisions

DEDICATION

I dedicate this report to my dear parents Mr and Mrs Bwire Harrison Wandera, and to my beloved siblings. Not forgetting our very special Wakoko Lydia a great friend, some of my course mates and then my research supervisor, who without their support, prayer and encouragement I would not have withstood the trial of compiling and accomplishing this work. May God bless each one of you abundantly.

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LIST ACRONYMS AND ABBREVIATIONS

MP	–	Monetary Policy
BoU	–	Bank of Uganda
CBK	–	Central Bank
CB	–	Commercial Bank
IMF	–	International Monetary Fund
CBR	–	Central Bank Rate
IS-LM	–	Investment Saving and Liquidity Preference Money supply.
IS-IRT	–	Investment Saving and Interest Rate
GDP	–	Gross Domestic Product
IT	–	Inflation Targeting
MT	–	Monetary Targeting
CCI	–	Consumer Confidence Index
BTS	–	Business Tendency Survey
ELB	–	Effective Lower Bound
BSC	–	Balance Sheet Channel
BLC	–	Bank Lending Channel
STATA	–	Software used to analyze data
UGX	–	Uganda shillings
HHD	–	Household
HHDs	–	Households

CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

Monetary policy is often used as a countercyclical tool of choice in stabilizing the economy. See: (IMF Finance & Development; Monetary policy: "stabilizing prices and output"). Take an example of when the economy is in a recession. Consumers' spending declines more than before, decline in business production which in turn leads to laying off workers, and even a halt on investing in new capacity; then a fall in exports is also observed. This thereby showing a decline in aggregate demand to which government can only respond with a policy aimed at curbing the further negative progress of the economy, and one of the ways is through monetary policy. The basic approach here is just changing the size of the money supply, usually through one of these policies being open market operations, which involves the purchase and sale of securities in the open market by the central bank that works on expansion and contraction of the money supply respectively. Even though central banks have tried to experiment these targets over the years, these targets have still remained less common, the fact being that the correlation between money and prices is to weigh than it was before. Thus diverting most of the central banks' target to inflation, either alone or with possibly some other goals for growth or employment.

There are two variants currently, onto which the central bank hinges its choice for the primary monetary instrument. These two variants of money market analysis include; one where the central bank controls the money supply in a way that makes it exogenous to the economy which leads to the IS-LM model analysis of aggregate demand, and the second one where the central bank controls the interest rates in a way that makes it exogenous to the economy which leads to the IS-IRT model analysis of aggregate demand. Therefore, in both models monetary and fiscal policies are effective in influencing aggregate demand. However, based on Ricardian theory, the equivalence of these two models makes aggregate demand constant to fiscal policy changes: Handa J. Monetary Economics, 2nd edition. Pg 409 (2009). In contrast, monetary policy analysis serves as a means of strengthening the economic analysis from a medium to a long-term perspective. This is also crucial in analyzing global developments and assessing future prospects for inflation and economic activities based on the outlook of changes in both domestic and external factors. Using the information derived from these analyses, the central bank is able to decide on which appropriate level of the Central Bank Rate (CBR) to serve the

maintenance of price stability over the medium term: BoU Monetary Policy Report, November (2011).

The impact of monetary policy has long been recognized by economic theories upon different macroeconomic variables. Say, output, employment, growth and prices. Therefore, the control of money supply and interest rates manipulation is entrusted to the central bank rather than leaving it to the market forces of demand and supply: Handa J. Monetary Economics, 2nd edition. Pg 338 (2009). This has further been viewed in different channels since its existence. But however it may appear, its general aim draws down to adjusting the supply of money in the economy to ensure effective and efficient control of inflation and output stabilization. It would be agreed by most economists that output measured by GDP, in the long run, is usually fixed. Indicating, any changes in the supply of money will only cause prices to change. But in the short run since prices and wages do not usually change immediately, the actual production of goods and services can always be affected by changes in money supply. This is why monetary policy is conducted by the central banks, it being a meaningful policy tool used to arrive at the target inflation and growth rate objectives of the economy.

1.2 BACKGROUND

Following the Bank of Uganda (BoU)'s introduction of an inflation targeting (IT) monetary policy framework in July 2011 that replaced a monetary targeting (MT) framework which had been in operation for two decades by then, after a realization that the use of MT framework had become obsolete. Meaning that its effectiveness was at that time being under-looked since the development of the financial sector and its integrations with the regional and global economy had started making both the money demand function and the money multiplier more unstable and unpredictable. This is evidenced by the observed decline in the velocity circulation of domestic currency broad money (M2) from 9.4 to 5.5 between 1999/2000 and 2010/11. This made it difficult to set the intermediate monetary targets on the basis of the forecast of velocity since the annual change in the velocity was ranging between positive 1% and negative 14%. Thus increasing the probability of adoption of a sub-optional monetary target. So, an unstable money multiplier complicates the task of achieving broad money targets through control of reserve money. Unlike the IT framework that uses a policy interest rate instead of the monetary base as the operating target. This offered BoU a clear mechanism of announcing to the public the monetary policy stand, through policy interest rates, and also a greater scope for short-term triggering of monetary policy through adjustments to interest rates in response to macroeconomic shocks.

“Economic and financial turbulence calls for greater transparency from policy maker”. Adrian, Alwazir, Khan, and Solohub, in their article on IMF BLOG; *Central Banks Must Enhance Transparency to Build Trust* (March 2023) state that. This is obtained from a detailed summary published by The Bank of Canada of its Governing Council. To maintain public trust, safeguard independence, and enhance policy effectiveness, monetary authorities must focus on transparency and accountability. Therefore, to keep independence as a central bank, there is need for transparency, which is being done in Uganda but not as much as it should be, since there is a certain group that of national that is left uninformed of the transmission mechanisms of these monetary policies. That is the low income/less educated households, who need a narrowed down effective communication for them that would help them have a better understanding of the economy, since these mechanisms are aimed for the wellbeing of all nationals as well as the entire economy at large.

1.3 PROBLEM STATEMENT.

Monetary policy can influence various economic variables, including inflation, employment, and economic growth. One important way in which monetary policy can affect the economy is by shaping households’ consumption decisions. Therefore, there was need to investigate how monetary policy announcements affect households’ Consumption decisions and how these expectations, in turn, affected economic variables such as spending. Additionally, it was important to understand how different monetary policy tools, such as interest rates, and exchange rates, affect households’ consumption decisions, and whether the impact of monetary policy on expectations varied across different groups of households. Thus, the problem this research aimed to address was to examine how changes in monetary policy affected households’ Consumption decisions and how in turn, affected macroeconomic outcomes.

1.4 GENERAL OBJECTIVE.

Generally, the research would aim to identify the channels through which monetary policy announcements affect households’ consumption decisions, such as through changes in interest rates, asset prices, or exchange rates, and how changes in households’ expectations influence household decisions, such as consumption.

1.4.1 Specific objectives.

1. To analyze how changes in interest rate adjustments, affect households' consumption decisions.
2. To investigate the extent to which changes interest rates affect the purchasing power and affordability of households.
3. To examine the relationship between money supply and households' consumption decisions.

1.5 RESEARCH HYPOTHESES.

The study was guided by the following hypothesis stated in their null form:

(H_0): *There is no significant effect of Interest rates on households' consumption decisions.*

There is a positive impact of interest rates on the purchasing power and affordability of households

There is no strong positive relationship between money supply and households' consumption decisions

This hypothesis suggests that the independent variable (monetary policies) has a significant effect on the dependent variable (households' consumption decisions). The null hypothesis, on the other hand, suggests that there is no relationship between the two variables.

1.6 SCOPE OF THE STUDY

The study was guided by the content scope, geographical scope and time scope as follows:-

1.6.1 Content scope

The study concentrated on the effects of monetary policy on households' consumption decisions. The study put much emphasis in identifying the channels through which monetary policy announcements affect households' consumption decisions, such as through changes in interest rates, or exchange rates.

1.6.2 Time scope

The study focused on literature of the impact of changes in monetary policy on household consumption decisions in the past 4years that is from 2019 to 2023. The during COVID19 and post COVID19 period.

1.7 CONCEPTUAL FRAMEWORK

This paper examined if monetary policies significantly affect households' consumption behavior in Uganda. Monetary policies; actions taken by a central bank or other monetary authorities to manage the supply and demand of money and credit in an economy. Its primary objective being to promote price stability and sustainable economic growth. The effects of monetary policies (independent variables); interest rates, exchange rates, money supply and cash reserve ratio, and other economic indicators that may influence households' consumption behavior such as; Economic outlook, savings, investment, inflation, and employment rates in Uganda were studied. The study adopted both descriptive and analytical research designs. Secondary data was used. The data used was captured by the central bank of Uganda to better understand the in-depth changes in data. The data summary and analysis involved the use of STATA 15.0 to produce inferential statistics regression analysis that determined the relationships between the dependent and independent variables

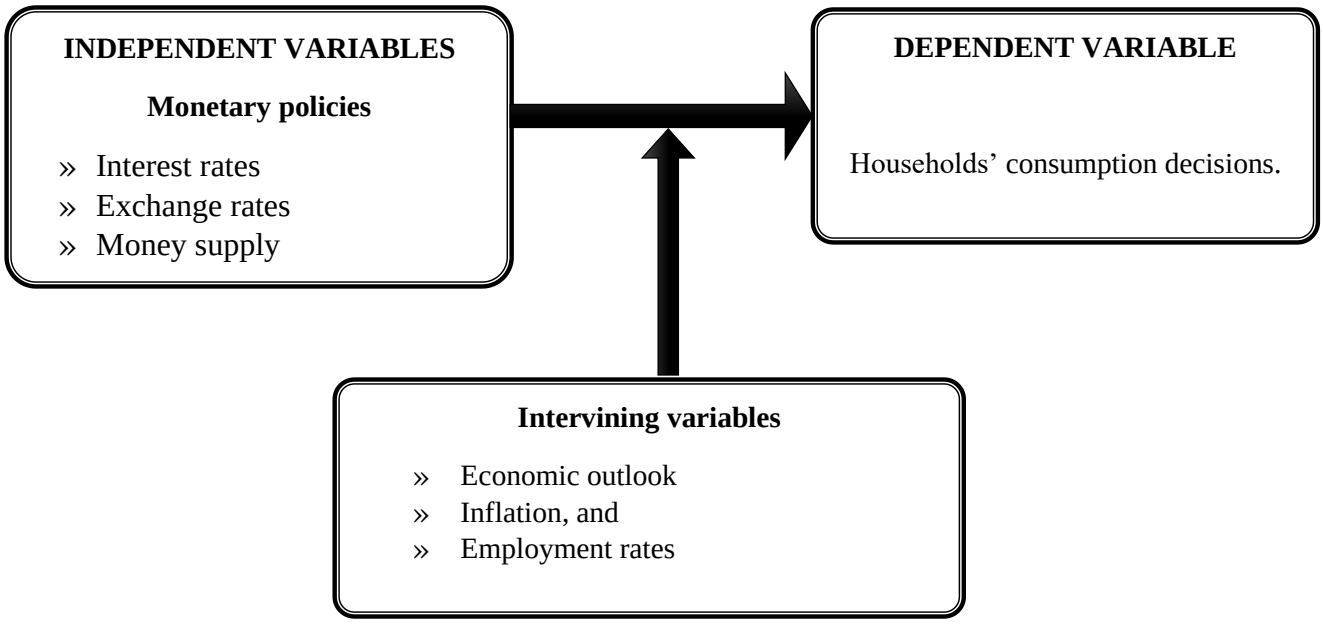


Figure 1 conceptual frame work

1.8 JUSTIFICATION

Having worked as an enumerator for several months in data collection of the Consumer Confidence Survey (CCI) at the Central Bank of Uganda, I got to realize a quite similar outcry from the respondents that, "…government should improve the policies they come up aimed at improving the economy…" Yet this survey is used in shaping Monetary Policies. This, therefore, triggered my mind in finding out how really these monetary policies influence households expected consumption behavior.

1.9 SIGNIFICANCE OF THE STUDY

By achieving the above objectives, this research was to provide insights into the effectiveness of monetary policy in managing inflation, economic growth, and employment, and inform policymakers on how to use monetary policy tools to manage households' Consumption decisions and promote macroeconomic stability.

CHAPTER TWO:

2.1 LITERATURE.

2.1.1 Theoretical review;

According to Keynes through his transactions motive idea, postulates that there is always need of cash for current transactions of personal and business exchanges. This motive was further separated into an "income-motive" to bridge the interval between the receipt of income and its disbursement by households, and a "business-motive" to bridge the interval between payments by firms and their receipts from the sale of their products (Keynes, 1936, pp. 195–6). Keynes did not present a rigorous analysis of the transactions and precautionary motives but "assumed to absorb a quantity of cash which is not very sensitive to changes in the rate of interest as such apart from its reactions on the level of income" (Keynes, 1936, p. 171). This assumption of Keynes was in fact somewhat more restrictive than that of Pigou where the demand for money, due to the objects of the "provision of convenience" and the "provision of security," was dependent upon the return on investments and the utility foregone in abstaining from consumption. Although Keynes provided the rationale for the precautionary motive for holding money, he did not present a theoretical derivation of the precautionary demand for money. Rather, he merged it with the transactions demand for money. However, subsequent developments on money demand did come up with several models of the precautionary demand for money and its related buffer stock demand for money (Handa J. 2nd edition, 2009. pp 56)

2.1.2 Conceptual review;

The monetary policy changes are carried forward to the economy through the monetary policy transition mechanism. This theory identifies four channels through which policy-induced monetary policy impulses are transmitted initially through the financial system, via changes in financial prices and quantities to the real economy, this affecting aggregate spending decisions of households and firms, and eventually aggregate demand and inflation. (see Jacob Opolot, 2020; Bernanke and Blinder; 1988; 1992, Christiano and Eichenbaum; 1998, Kashyap and Stein; 1993, Mishkin; 1995; 1996, Bernanke and Gertler; 1995, among others). Opolot . J (2020) reveals that the high cost of capital causes households and firms to scale down consumption and investment spending. This in turn leads to a fall in aggregate demand, which consequently leads to a fall in output, on the assumption of sticky prices. In contrast, Bernanke and Gertler, 1995; *The credit channel of monetary policy transmission,* found that, according to many textbooks, monetary policymakers use their leverage over short-term interest rates to

influence the cost of capital and consequently, spending on durable goods, such as fixed investments, housing, inventories and consumer durables.

"Do monetary policy announcements shift household expectation?" the Federal Reserve Bank of New York Staff Report (2020). In this article; Lewis, Makridis and Mertens revealed that a surprise increase in the target rate robustly leads to an immediate decline in household confidence. This differs from the previous findings that suggest; consumers are largely inattentive to economic developments. Thereby, theoretically according to Blinder, 2008; who stresses that effective central bank communication makes policy decisions more predictable, long term inflation expectation is anchored more firmly, thus creating additional policy options at Effective Lower Bound (ELB)[1] in the form of forward guidance about anticipated future policy rates. Much evidence is known on how monetary policy announcements trigger the expectations of professional forecasters and financial market participants. However, much less is known about how strongly the central bank communications trigger the beliefs of households and firms that ultimately account for the biggest economic decisions that monetary policy seeks to influence (Lewis, Makridis and Mertens, 2020). These findings are also supported by Ahn. H, Xie. S, and Yang. C (2022); in their paper "Effects of Monetary Policy on Households' Consumption decisions: The Role of Homeownership", and Binder, 2009.

"Spend Today or Spend Tomorrow?" *the role of inflation expectations in consumer decisions* by Rondinelli and Zizza, 2020; found that in the early 1990's during a high-inflation regime, consumers with higher inflation expectations tend to spend highly at the current time than in the future time. Conversely, in a low-inflation environment, for example, after a global financial crisis, higher-inflation expectations tend to lower households' purchasing power. They further stress that, theoretically the expectation channel is a key determinant of the overall effectiveness of monetary policy. They also incite that some literature argues that age may also trigger inflation expectations, which are shown to depend on the inflation experience people accumulate in their lifetime. Central bankers of late have changed their communications strategies in the last thirty years, as it has been noticed that they now announce their policy decisions, explain their reasoning and describe their anticipated plan in time to come. These new strategies primarily target financial markets, to both minimize money supply as well as shape long-term interest rates to better achieve part of the main objectives of the central bank.

[1] ELB is a point at which the central bank has limited ability to stimulate the economy through conventional monetary policy. At this point the central bank may need to use unconventional policy measures like, quantitative easing, forward guidance, or negative interest rates to stimulate the economy.

This seems to have been successful, though, for example, forward-guidance announcements on long-term interest rates (see Coibion, Gorodnichenko, and Weber 2019).

In contrast, in influencing the expectations of households or firms, the central banks have always aimed to anchor their inflation expectations. However, the central banks appear to have concurrently failed to achieve this objective across most advanced economies. As Coibion, Gorodnichenko, and Weber 2019 in their paper "Monetary Policy Communications and their Effects on Household Inflation Expectations", notice that Households in low-inflation countries report expectations about inflation that are not even close to one anchored, and even seem unaware of dramatic monetary policy announcements, showing almost no knowledge of what central banks do. This finding is also supported by D'Acunto 2018a and Binder 2017. Geiger .M, Breitenlechner .M, and Scharler. J (2023); *Monetary policy announcements, consumers' inflation expectations, and readiness to spend*, found that only limited evidence suggesting that policy-induced variations in inflation expectations are associated with adjustments that are in line with the predictions of standard macroeconomic models.

Monetary policy transmission mechanism theory is described by Opolot and Nampewo (2014), in that Monetary Policy can trigger real economic activities via different channels, including; interest rate channels, exchange rate channels, and other asset price channels nevertheless credit channels, such as Balance Sheet Channel (BSC), which concentrates on the impact of monetary policy changes on the borrowers' balance sheet, and then Bank Lending Channel (BLC), this looks at that direct effect monetary policy actions has on the supply of loans by the banking system. In addition, the Balance-Sheet effect is one of the sub-channels through which the exchange rate channel affects aggregate spending, taking a view of when households or firms are having a debt valued in foreign currency, thus any changes in exchange rates would eventually affect their net worth; hence affecting their spending and investment decisions.

Ball. L and Croushore. D, also present an argument that policy shifts have larger effects on actual output than on expected output; in fact, policy predicts errors in output expectations. This violates rational expectations. Therefore, according to them, policy shifts do not predict errors in inflation expectations. They continue to present that agents tend to underestimate the effects of monetary policy on aggregate demand, further revealing that an increase in the Central Bank Rate reduces output at a horizon of close to a year. This causes survey respondents to expect lower output, but the effect on expected output is smaller than that on the actual output. This confirms, that an increase in the central bank rate leads to negative errors

in output expectations. In the same context, Ahn. H, Xie. S, and Yang. C (2022) also found out that the Central Banker's communications about monetary policy had little effect on the expectations of households. This is supported by Lamla and Vinogradov, 2019. Having identified the problem of households' less knowledge and less attention about the monetary policy communications, policymakers are triggered to best understand how households would respond to policy communications, thus posing questions such as, Do monetary policy communications affect households' Consumption decisions? What are the channels through which monetary policy communications influence households' Consumption decisions?

CHAPTER THREE: METHODOLOGY

3.1 METHODOLOGY

This section discussed and described in detail the methods, tools, techniques and procedures that were employed in executing the research. The discussion pays attention to issues of reliability and validity of the methods and the results or findings of the study.

3.1.1 Research design

The research design was a structure and investigation strategy conceived to obtain answers to the research questions or problems. The study employed explanatory research design because the purpose of this study was to find out more about the effects of monetary policy on households' consumption decisions. It was a design where information was gathered from a large number of people by filling the questionnaire shared to them digitally. Survey research design was also descriptive in nature. The study used cross-sectional survey design. This is a type of design in which data is collected at only one time period.

There are different types of research methods that could be used when dealing with such a study design. The methods include: qualitative research, quantitative research, and a mixture of both qualitative and quantitative research. The difference between qualitative and quantitative research arise from their procedures (Ghauri & Grönhaug 2005, 109) see table below:

Differences in Emphasis in Qualitative versus Quantitative Methods. (Reichardt & Cook (1979), cited in Ghauri & Grönhaug 2005, 110).

Table 1 Differences in Emphasis in Qualitative versus Quantitative Methods

Qualitative Methods	**Quantitative Methods**
• Emphasis on understanding	• Emphasis on testing and verification
• Focus on understanding from the respondent's/informant's point of view	• Focus on facts and/or reasons for social events
• Interpretation and rational approach	• Logical and critical approach • Controlled measurements

• Observations and measurements in natural settings	• Objective 'outside view' distant from data
• Subjective 'insider view' and closeness to data	• Hypothetical-deductive; focus on hypothesis testing
• Explorative orientation	• Result oriented
• Process-oriented	• Particularistic and analytical Generalization by population membership.
• Holistic perspective Generalization by comparison of properties and contexts of individual organism	Quantitative Methods

Thus the study used a mixed method, whereby; Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity. Qualitative research, on the other hand, is concerned with qualitative phenomena, i.e., phenomena relating to or involving quality or kind. For instance, when we are interested in investigating the reasons for human behavior (i.e., why people think or do certain things), we quite often talk of 'Motivation Research', an important type of qualitative research.

Therefore, due to resource, finance and time constraints, the study utilized primary data that was collected using a questionnaire designed using digital Google forms and secondary data.

3.1.2 Study population

According to Ahuja (2003) study population refers to all those people with the characteristics which the researcher wants to study within the context of a particular research problem. The study took on a random sharing a digitalized link to the questionnaire to several believed to be household heads over different social media platforms and population of over 50 respondents effectively attempted the exercise.

3.1.3 Sample size determination

The researcher decided to take on a sample of 50 respondents out of over 55 responses received.

3.1.4 Sampling techniques

The study used both purposive and simple random sampling techniques. Purposive sampling was used to select and scrutinize households. And simple random sampling was used in the

process of sharing the questionnaire. The choice was made in order to enable the researcher get an adequate representation of the whole population.

3.1.5 Data sources

During the research, both primary and secondary data were used in answering the research questions.

According to Kothari (2013), secondary data is data which is collected and analyzed by someone else. A range of data sets were gathered from the Central Bank of Uganda for analysis including bank policy documents, agency quarterly and annual reports including statistical abstracts, journals, magazines, research reports and internet sources which the researcher best used.

Primary data is a type of data that is collected for the first time and has not existed before. The researcher collected primary data through the use of questionnaires.

3.1.6 Data collection instruments

The study was guided by the following data collection instruments:-

3.1.6.1 Questionnaires

The population of over 55 respondents filled in a digitalized Google Form questionnaire. The researcher used this type of questionnaire because the target population of late is believed to have computers (smartphones) and is literate about the internet, so are able to execute this exercise. The researcher developed closed and open-ended questions because they were easy to fill, save time and were believed to keep the respondent focused on the subject. The questionnaire was divided into sections delineating personal information, and questions about the independent and the dependent variable. Questionnaires were used because they are the main method of data collection. This was advantageous because the researcher took a short time to cover a large population, and this information was validated using data from secondary information.

The researcher obtained a letter of introduction from the Research Coordinator, Faculty of Business Administration of Uganda Christian University to conduct research. Such a letter of permission was obtained in order for the researcher to gain trust and access to data from where it was being obtained. The letter was always handed over to the concerned persons and allowed the researcher access to the required information.

3.1.7 Data quality control

3.1.7.1 Validity of instruments

According to Sekaran (2003), validity refers to the degree to which results obtained from the analysis of the data actually represent the phenomenon under the study. In order to establish the validity of instruments, the researcher employed a technique called triangulation to examine how data was collected to answer the questions under the study from different perspectives and this involved comparing responses collected through questionnaires.

3.1.7.2 Reliability of instruments

According to Cronbatch (1946), reliability refers to the measure of the degree to which a research instrument yields consistent results or data after repeated trials.

The secondary data obtained from the Central Bank of Uganda was examined and tested for issues like; Autocorrelations, Multicollinearity and stationarity of variables, and even scrutiny of variables in line with the research questions for better analysis. Before the real collection of data, the instrument was tested on 5 respondents to determine their reliability.

3.1.8 Data analysis plan

The data was analyzed using the computer soft wares known as STATA version 15. These were used in investigating, measuring and comparing the relationships between monetary policy and households' consumption decisions.

3.1.9 Model specification.

Dependent variable.

HHDcd – Household consumption decisions

Independent variables.

ISCP – Item or service change in prices

MPee – Monetary Policy effects on the economy

MPer – Monetary Policy effectiveness rate

Other iterative variables

BAsM - Budget adjustments made

Control variables (if applied)

AGE – age

SEX – gender

EDL – Education level

EMPl – Employment Level

Model specification

$HHDcd = c + \beta 1\ ISCP + \beta 2\ MPee + \beta 3\ MPer + e$

$BAsM = c + \beta 1\ MPee + \beta 2\ MPer + e$

3.1.10 Ethical consideration.

Ethically, the researcher ensured that the principle of confidentiality and privacy throughout the research was preserved given the fact that the topic being handled was very sensitive. An explanation about the purpose of the study and expected outcomes and benefits was made clear to the engaged key persons.

CHAPTER FOUR: PRESENTATION OF RESULTS

4.1 RESULTS

This chapter comprised of the descriptive analysis of the research findings and the predictions of regression model analysis.

4.1.1 Findings of the background characteristics of the respondents

The survey was carried out among 50 respondents, majority of whom were male represented by 57.7%. The average age was in the range of 23-27 years (table 1)

Table 2 background characteristics of the respondents.

PARAMETERS	FREQUENCY	PERCENTAGE (%)
Sex		
Male	29	57.7%
Female	21	42.3%
Age		
18-22	12	23.1%
23-27	17	34.6%
28-35	16	32.7%
36 years & above	5	9.6%
Education level		
Primary	1	1.9%
Secondary	9	17.3%
Post-secondary	40	80.8%
Employment		
Self-employed	15	30.8%
Employed	13	25%
Unemployed	22	44.2%
Household income level		
Less than Ugx 300,000	22	43%
Ugx 300,000 - Ugx 500,000	17	35.3%
More than Ugx 500,000	11	21.6%

Source: primary data

From table 2 above the study on gender of the repondents reviled that more thatn half of the respondents that is 29 (57.7%) were male, while female constituted the moinority 21 (42.3%). More than a quarter of the respondents that is 17(34.6%) were in the age range of 23-27 years, while 36years and above constituted the minority. Additionally, majority of the repondents that is 40 (80.8%) were in post-secondary education level, while primary constitued the minority that is 1 (1.9%).

Furthermore, majority of the respondents that is 22 (44.2%) were unemployed, while the employed that is 13 (25%) were the minority. Finally 22 (43%) of the respondets had an estimated monthly income level of less than Ugx 300,000 which were the majority, while only 11 (21.6%) of the respondents had an estimated monthly income of more than Ugx 500,000 which were the minority.

summarize Gender Age Educationlevel Employment HHDmonthlyexpenditure MonetarypolicyAwareness Observationofchangesintheco Itemorservicepricechange HHDconsumptiondecisions HHDbudgetadjustments Budgetadjustmentsyoumade Perceptiononimpactofmonetary MPeffectsontheeconomy MPeffectivenessrate

Table 3 Summary of SD & variances for all variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Gender	50	1.58	.4985694	1	2
Age	50	3.28	.904411	2	5
Educationl~l	50	2.78	.4646702	1	3
Employment	50	.8	.808122	0	2
HHDmonthly~e	50	1.76	.7708993	1	3
Monetarypo~s	50	.76	.4314191	0	1
Observatio~o	50	.92	.2740475	0	1
Itemorserv~e	50	4	.6700594	3	5
HHDconsump~s	50	1.5	.7354022	1	3
HHDbudgeta~s	50	.8	.404061	0	1
Budgetadju~e	50	4.8	.808122	4	6
Perception~y	50	1.28	.8815571	0	2
MPeffectso~y	50	2.24	.7439552	1	3
MPeffectiv~e	50	3.2	1.212183	1	5

Source: primary data

The survey was carried out among 50 respondents, majority of whom were male represented by 57.7%. The average age was in the range of 23-27 years, the highest age range 23-27years with a number of 17 respondents comprising 34.6% of the sample population, and the lowest age response was 36 years and above with a number of 5 respondents comprising of 9.6%.

Majority of the respondents were post-secondary/tertiary education level with a number of 40 respondents comprising 80.8%, and the lowest were primary level with only one respondent comprising of 1.9% of the sample population. Furthermore, majority of the respondents fall in the unemployment category with a number of 22 respondents comprising 44.2% and the lowest response falling in the Employed category with a number of 13 respondents comprising of 25%. Then finally, majority of respondents' income level was less than Ugx 300,000 with a number of 22 respondents comprising of 43% and the least of them were earning more than Ugx 500,000 with a number of 11 respondents comprising of 21.6%.

4.1.2 Finding on objective one

From objective one, "To analyze how changes in interest rate adjustments, affect households' consumption decisions", below were the findings:-

Table 4 correlation for objective one variables.

```
. cor HHDconsumptiondecisions Itemorservicepricechange MPeffectsontheeconomy
(obs=50)
```

	HHDcon~s	Itemor~e	MPeffe~y
HHDconsump~s	1.0000		
Itemorserv~e	0.1657	1.0000	
MPeffectso~y	-0.1119	0.0819	1.0000

From the above output it showed a negative correlation (-0.1119) between household consumption decisions and monetary policy changes in the economy. This implied that households were reluctant at changing their consumption decisions at change of monetary policies (HHDs do not react immediately to monetary policy changes. However there was a low positive relationship (0.0819) between change in prices of different items and monetary policy changes in the economy.

In the following statistical model, we regressed one dependent variable that is, HHD consumption decisions (HHDcd) which was measuring the rate of change in households consumption decisions, then three predictor variables that is Item or service change in prices (ISCP) which was measuring changes prices of different goods and services, MP effects on the economy (MPee) measuring the impact of monetary policy on the economy, and MP

effectiveness rate (MPer) measuring the effectiveness of these monetary policies. Thus the model:-

HHDcd = 1.069824 + 0.1836898ISCP – 0.124834MPee – 0.0152984MPer + e …… (1)

Table 5 Regression analysis for objective one variables

```
. reg HHDconsumptiondecisions Itemorservicepricechange MPeffectsontheeconomy MPeffectivenessrate
```

Source	SS	df	MS	Number of obs	=	50
				F(3, 46)	=	0.70
Model	1.16385818	3	.387952728	Prob > F	=	0.5543
Residual	25.3361418	46	.550785692	R-squared	=	0.0439
				Adj R-squared	=	-0.0184
Total	26.5	49	.540816327	Root MSE	=	.74215

HHDconsumptiondecisions	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
Itemorservicepricechange	.1896898	.1600213	1.19	0.242	-.1324163	.511796
MPeffectsontheeconomy	-.124834	.1429906	-0.87	0.387	-.4126592	.1629911
MPeffectivenessrate	-.0152984	.0881617	-0.17	0.863	-.1927587	.1621619
_cons	1.069824	.7839427	1.36	0.179	-.508171	2.647819

A quick glance at this regression model, showed that STATA automatically conducted an F-test, F(3, 46) = 0.70 and now P-value (Prob >F = 0.5543) testing the null hypothesis that something was going on here (in other words, that all of the coefficients on our independent variables are not equal to zero). We accepted the null hypothesis with a high confidence of 95%. This implying that the predictor variables are not statistically significant.

Looking at the R-squared = 0.0439 indicated that only 4.39% of the dependent variable (HHD consumption decisions) was being explained by the predictor variables.

4.1.3 Presentation of finding on objective two

From objective two which states; “To investigate the extent to which changes in monetary policy affect the purchasing power and affordability of households”, below were the findings:-

Table 6 correlation for objective two variables

```
. cor Budgetadjustmentsyoumade MPeffectsontheeconomy MPeffectivenessrate
(obs=50)

             | Budget~e MPeffe~y MPeffe~e
-------------+---------------------------
Budgetadju~e |   1.0000
MPeffectso~y |   0.0815   1.0000
MPeffectiv~e |   0.0000  -0.0091   1.0000
```

From the above statistical output, there was a low positive relationship (0.0815) between Budget adjustments made (measuring HHDs purchasing power) and MP effects on the economy (MPee) measuring the impact of monetary policy on the economy, then a negative relationship (-0.0091) between Budget adjustments made and MP effectiveness rate (MPer) measuring the effectiveness of these monetary policies.

In the following statistical model, we regressed one dependent variable that is, Budget adjustments made (BAsM) measuring HHDs purchasing power, then two predictor variables that is MP effects on the economy (MPee) measuring the impact of monetary policy on the economy, and MP effectiveness rate (MPer) measuring the effectiveness of these monetary policies. Thus the model:-

$$BAsM = 4.60018 + 0.0885028MPee + 0.0004917MPer + e \quad \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Table 7 Regression analysis for objective two variables

```
. reg Budgetadjustmentsyoumade MPeffectsontheeconomy MPeffectivenessrate
```

Source	SS	df	MS		
				Number of obs	= 50
				F(2, 47)	= 0.16
Model	.212406785	2	.106203393	Prob > F	= 0.8551
Residual	31.7875932	47	.676331771	R-squared	= 0.0066
				Adj R-squared	= -0.0356
Total	32	49	.653061224	Root MSE	= .82239

Budgetadjustmentsyo~e	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
MPeffectsontheeconomy	.0885028	.1579257	0.56	0.578	-.2292027	.4062084
MPeffectivenessrate	.0004917	.096924	0.01	0.996	-.1944943	.1954777
_cons	4.60018	.4866743	9.45	0.000	3.621118	5.579243

Similarly, at a quick glance at the above regression model, STATA automatically conducted an F-test, F(2, 47) = 0.16 and now P-value (Prob >F = 0.8551) testing the null hypothesis that something was going on here (in other words, that all of the coefficients on our independent variables are not equal to zero). And since the t-test statistic (9.45/0.48667 = 19.42) was greater than 1.96, we accepted the null hypothesis with a high confidence of 95%. This implying that the predictor variables are not statistically significant.

Looking at the R-squared = 0.0066 indicated that only 0.66% of the dependent variable (Budget adjustments made) was being explained by the predictor variables.

4.1.4 Presentation of finding on objective three

From objective three which state, “To examine the relationship between Money supply and households' consumption decisions”, below were the findings:-

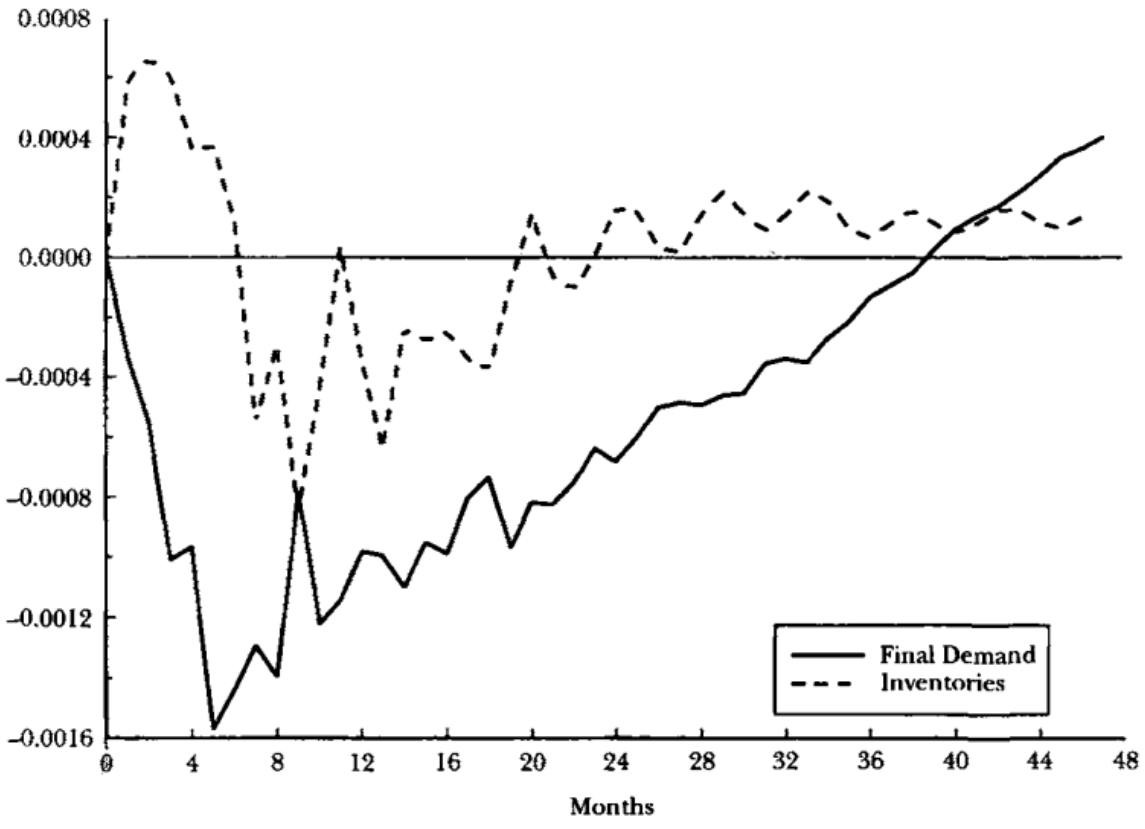
Table 8 correlation for objective three variables

```
. cor HHDconsumptiondecisions MPeffectsontheeconomy MPeffectivenessrate
(obs=50)
```

	HHDcon~s	MPeffe~y	MPeffe~e
HHDconsump~s	1.0000		
MPeffectso~y	-0.1119	1.0000	
MPeffectiv~e	-0.0458	-0.0091	1.0000

From the output above, there was a negative relationship (-0.1119) between household consumption decisions and impact of monetary policy in the economy. In contrast, a very low negative relation (-0.0458) between household consumption decisions and monetary policy effectiveness in the economy was also observed. Similarly, there was a very weak relationship between impact of monetary policy in the economy and monetary policy effectiveness in the economy. In contrast, this can also be observed in the graph below:-

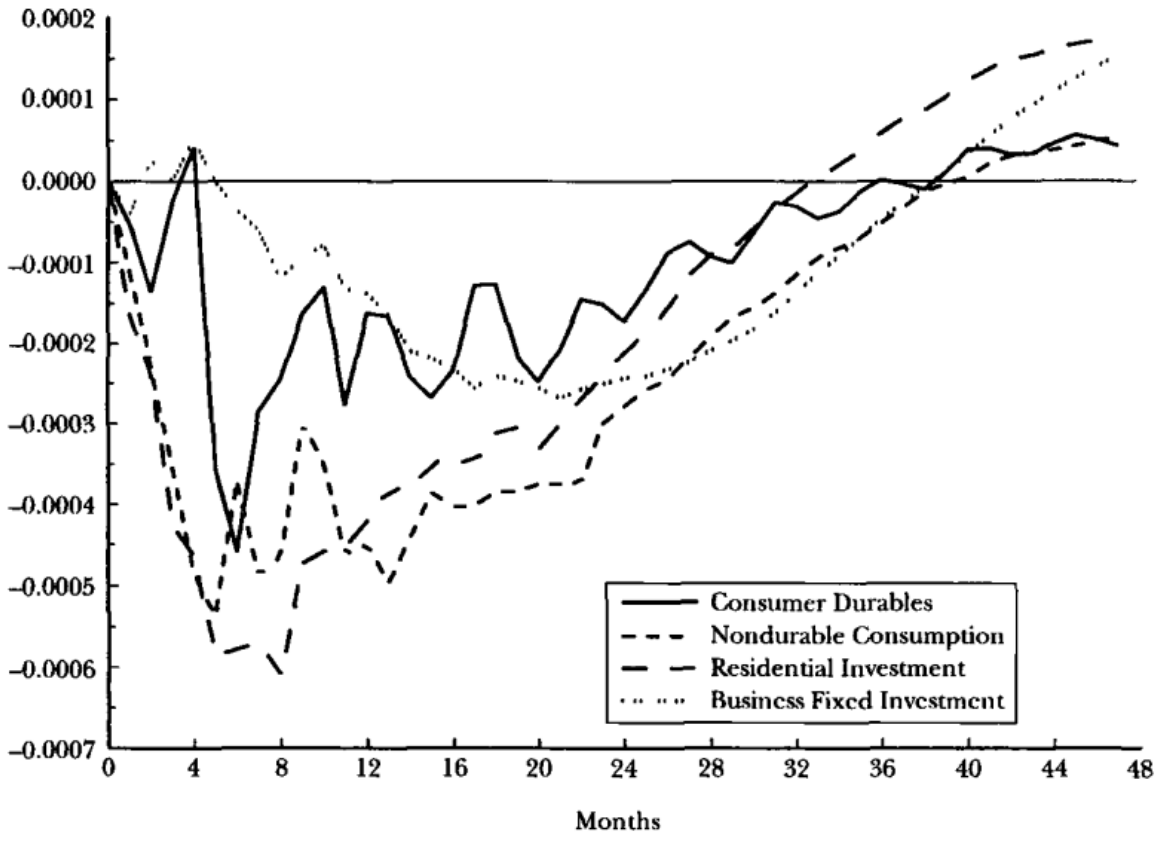
Figure 2 Response of final demand and inventories to a monetary policy shock



Source: Ben S. Bernanke and Mark Gertler, 'Journal of Economic Perspectives' pg 32.

From the figure above, final demand drops quickly following an unanticipated tightening of monetary policy. In contrast, inventories build up for a period of several months before beginning to decrease, implying that the fall in final demand leads the decline in aggregate production.

Figure 3 Response of spending components to a monetary policy shock



Source Ben S. Bernanke and Mark Gertler, 'Journal of Economic Perspectives' pg 33.

As observed from the figure above, residential investment drops sharply following a monetary tightening and accounts for a large part of the initial decline in final demand. Also consumer durables and nondurables, which contribute significantly to the fall in final demand. Nondurables react by much less in percentage terms than durables do, but they make a similar total contribution to the downturn owing to their larger share in overall economic activity.

CHAPTER FIVE:

5.1 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1.1 Summary of finding on background characteristics of the respondent.

The survey was carried out among 50 respondents, majority of whom were male represented by 57.7%. The average age was in the range of 23-27 years, the highest age range 23-27years with a number of 17 respondents comprising 34.6% of the sample population, and the lowest age response was 36 years and above with a number of 5 respondents comprising of 9.6%. Majority of the respondents were post-secondary/tertiary education level with a number of 40 respondents comprising 80.8%, and the lowest were primary level with only one respondent comprising of 1.9% of the sample population. Furthermore, majority of the respondents fall in the unemployment category with a number of 22 respondents comprising 44.2% and the lowest response falling in the Employed category with a number of 13 respondents comprising of 25%. Then finally, majority of respondents' income level was less than Ugx 300,000 with a number of 22 respondents comprising of 43% and the least of them were earning more than Ugx 500,000 with a number of 11 respondents comprising of 21.6%

5.1.2 Summary of finding on objective one

Basing on the negative correlation (-0.1119) between household consumption decisions and monetary policy changes in the economy. This implies there is an inverse relationship between the two variables, that is, as the monetary policy impacts on the economy increase/become more severe, the lower/the more household consumption decision worsen, and vice versa. This also applies to the positive relationship (0.0819) between change in prices of different items and monetary policy changes in the economy. That is as the prices of different items increase, the impact of monetary policies on the economy also increase, vice versa.

Thereafter, in the regression model obtained;

HHDcd = 1.069824 + 0.1836898ISCP – 0.124834MPee – 0.0152984MPer + e …… (1)

H_0: There is no significant effect of monetary policies on households' consumption decisions.

H_a: Monetary policies significantly affect households' consumption decisions.

The regression analysis automatically revealed to us that there is no significant effect of monetary policies on households' consumption decisions. This is so, because the P-value was

greater than 0.05 significance level, thus accepting the null hypothesis. Evidently enough, only 4.39% of household consumption decisions could be explained by the other predictor variables.

5.1.3 Summary of finding on objective two

The correlation analysis conducted between Budget adjustments made (measuring HHDs purchasing power) and MP effects on the economy (MPee) measuring the impact of monetary policy on the economy indicated a positive relationship (0.0815). That is, as Budget adjustments made increase favorably (increase in the purchasing power of households), the more tight and impactful monetary policies become, and vice versa. Similarly, a negative relationship (-0.0091) between Budget adjustments made and MP effectiveness rate (MPer) measuring the effectiveness of these monetary policies, implies that as Budget adjustments made increase favorably (increase in the purchasing power of households), the monetary policy effectiveness rate declines, and vice versa.

From the regression model formed;

$BAsM = 4.60018 + 0.0885028MPee + 0.0004917MPer + e$ …….. (2)

H_0: Changes in monetary policy has no significant effect on the purchasing power and affordability of households

H_a: Changes in monetary policy affect the purchasing power and affordability of households

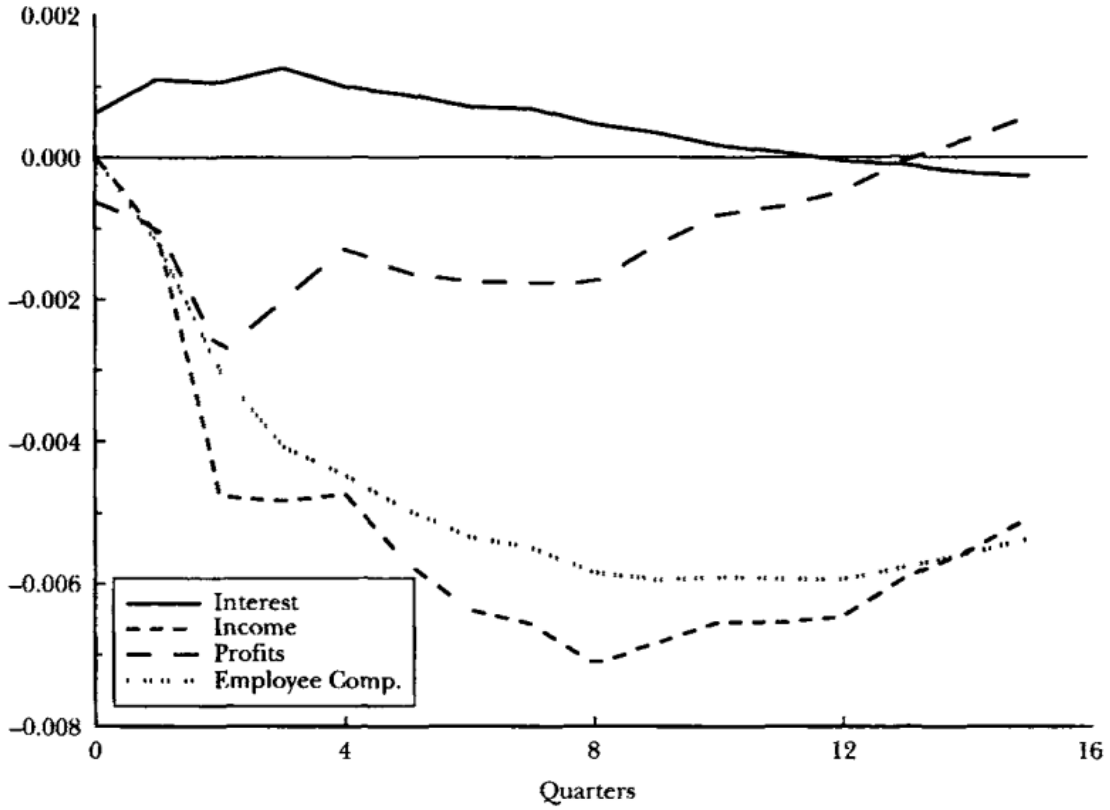
The regression analysis automatically revealed to us that there is no significant effect of monetary policies on Budget adjustments made (the purchasing power of households). This is so, because the P-value was greater than 0.05 significance level, thus accepting the null hypothesis. Evidently enough, only 0.66% of Budget adjustments made (the purchasing power of households) could be explained by the other predictor variables. This therefore, implies that to a very lesser extent monetary policy changes are able to affect the purchasing power of households, up to a maximum of about 1% is the only direct impact level monetary policies can inflict on households purchasing power.

5.1.4 Summary of finding on objective three

The correlation analysis conducted between household consumption decisions and impact of monetary policy in the economy revealed an inverse relationship (-0.1119) between the two variables implying that as one of the variables increases the other on decreases and vice versa.

Similarly, as household consumption decisions increase monetary policy effectiveness in the economy decline, this is due to an inverse relationship (-0.0458) observed. Conversely, form the figure below:-

Figure 4 Responses of corporate cash flows to a monetary shock



Source Ben S. Bernanke and Mark Gertler, 'Journal of Economic Perspectives' pg 39.

As observed from the figure above, income drops sharply following a monetary tightening and accounts for a large part of the initial decline in final demand. Profits react by much less in percentage terms than income dose, but they make a similar total contribution to the downturn owing to their larger share in overall economic activity.

5.2 CONCLUSION

Conclusively, Monetary Policy consists of a Government's formal efforts to manage the money in its economy in order to realize specific economic goals. Right from the literature (majority except a few), background study, during and throughout the data collection (at a descriptive data context) and from the data analyses conducted, it is evident that there was no significant

effect of monetary policies on households' consumption decisions as the hypothesis of the study states. This was further examined and we found out that, on a larger extent, only 1% of monetary policy impacts on the economy can directly inflict households' consumption decisions. An inverse relationship between household consumption decisions and impact of monetary policy in the economy was observed, this also applied to the relationship between household consumption decisions and monetary policy effectiveness in the economy.

5.3 KEY RECOMMENDATIONS

The effectiveness of monetary policy in stimulating households' budget adjustments depends on several factors, including the elasticity of money demand with respect to changes in income and interest rates, and the elasticity of aggregate households' consumption decisions with respect to changes in interest rates. Therefore, this study recommended that Central Bank should ensure adequate liquidity in the market, low interest and exchange rates to facilitate higher levels of households' savings and private investment and to improve economic growth, higher households' real incomes and increased employment opportunities.

5.4 AREAS FOR FURTHER RESEARCH

Due to resource and time constraints, this study focused on the following objectives. First, "to analyze how changes in monetary policy, such as interest rate adjustments, affect households", second "to investigate the extent to which changes in monetary policy affect the purchasing power and affordability of households", finally "to examine the relationship between monetary policy and households' consumption decisions" to supplement this study, further research need to be carried out along the following areas; Monetary Policy and financial stability, here one is to investigate the potential tradeoffs between monetary policy goals and financial stability analyzing how loose or tight monetary policies can contribute to systemic risks and asset gains and loss. Furthermore, one might be interested in, examining the link between monetary policy actions and income or wealth inequality, by assessing whether certain monetary policy strategies mitigate inequality.

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APPENDICES

6.1 Appendix 1:

1 The Questionnaire

Dear Respondent;

I **BWIRE DERIUS EMMA,** a student of Uganda Christian University Mukono pursuing a Bachelor's of Science degree in Economics and Statistics from Uganda Christian University Mukono. As part of the requirements for the completion of the Degree Program, I'm carrying out a study on the topic "THE EFFECTS OF MONETARY POLICY ON HOUSEHOLDS' CONSUMPTION DECISIONS IN UGANDA.'' The information you will give will be used for academic purposes only and will be treated with maximum confidentiality. You are kindly requested to answer the following questions as freely as possible.

Instructions:

Method of answering:

Tick the appropriate answers.

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender

Male ☐ Female ☐

2. Age of the respondent

18-22 years ☐ 23-27 years ☐

28-35 years ☐ 36years & above ☐

4. Education level

Primary ☐ Secondary ☐

Post-secondary ☐

3. Household income

Less than Ugx 300,000 ☐ Ugx 300,000 - Ugx 500,000 ☐

More than Ugx 500,000 ☐

A. Awareness of Monetary Policy

1. Are you aware of the term "monetary policy"? *(talk of open market operations, Central Bank Rate, etc.)*

Yes ☐ No ☐

B. Effects of Monetary Policy on Consumption and the Perception of respondents on effect of monetary policy on the Economy.

Use the information below to rank you're your best scale:

Strongly Disagree=SD, Disagree=D, Neutral=N, Agree=A, Strongly Agree=SA

NO	EFFECTS OF MONETARY POLICY AND PERCEPTIONS ABOUT IT!	SD (1)	D (2)	N (3)	A (4)	SA (5)
	Effects of Monetary Policy on Consumption					
1	Leads to adjustment of interest rates					
2	Influences individuals' decisions to save or spend.					
3	Impacts the value of financial assets such as stocks and real estate					
4	Influences consumer confidence in the overall state of the economy.					
5	Central banks often use monetary policy to control inflation.					
	Perceptions of respondents on effect of monetary policy on the Economy	**SD (1)**	**D (2)**	**N (3)**	**A (4)**	**SA (5)**
1	Lower interest rates are positive for borrowers as they can access credit at cheaper rates, which encourages spending					
2	Higher interest rates can discourage borrowing, leading to reduced spending and economic slowdown					
3	Some might worry that prolonged low interest rates could lead to excessive consumer borrowing and create financial vulnerabilities.					
4	Tightening monetary policy to control inflation is seen as a responsible move to ensure price stability and protect consumers' purchasing power.					
5	Higher interest rates might be favored by savers who want better returns on their savings and who are concerned about inflation eroding their purchasing power.					

1. So, have you observed any changes in the cost of goods and services over the past 4 months?

Yes ☐ No ☐

2. If yes, what specific items or services have you noticed a significant change in prices for? *(Select one most appropriate!)*

Change in all consumer goods prices ☐

Change in financial transuction costs ☐

Change in transport costs ☐

3. How have these changes in prices affected your household's consumption decisions? Rank!

[(3) increased consumption, (2) Decreased consumption, (1) No change in consumption]

1 ◯

2 ◯

3 ◯

4. Have you made any adjustments to your household budget as a result of changes in prices?

Yes ☐ No ☐

5. If yes, please specify the adjustments you made

Cutting back on certain expenses, ☐

Switching to cheaper alternatives ☐

Remained the same ☐

How would you rate the effectiveness of the current monetary policy in managing inflation and price stability in Uganda? **[not sure(1), ineffective(2), not very effective(3), somewhat effective(4), very effective(5)]**

1 ◯

2 ◯

3 ◯

4 ◯

5 ◯

SECTION C:

Use the information below to choose or tick the right alternative that fits your opinion on the role of monetary policy in Uganda as follows:

Strongly Disagree=SD, Disagree=D, Neutral=N, Agree=A, Strongly Agree=SA

NO	MONETARY POLICY EVALUATIONS	SD (0)	D (1)	N (2)	A (3)	SA (4)
	Impact of Monetary Policy on Consumption					
1	Monetary policies affect the cost goods and services.					
2	Monetary policies influence the wellbeing of the country Uganda.					
3	The current monetary policies effectively manage inflation and price stability.					
4	Monetary policies strongly influence the economic outlook of the country.					

Is there anything else you would like to share about the effects of monetary policy on households' consumption decisions in Uganda?

_____

_____

UGANDA CHRISTIAN UNIVERSITY

A Centre of Excellence in the Heart of Africa

SCHOOL OF BUSINESS

1st Aug 2023

TO WHOM IT MAY CONCERN

Name: **Bwire Derius Emma** Reg. No. **S20B34/222**

A bachelor's student who is seeking permission from your office to collect data for his/her dissertation titled

"**The Effects of Monetary Policy on Households' Consumption Decisions in Uganda**"

We shall be grateful if you could render assistance to him/her in collecting the necessary data for his/her dissertation

The Uganda Christian University School of Business thanks you in advance

……..

Mukisa Simon Peter

Research coordinator