ABSTRACT

Short-term interest rates are key economic variables, yet few people understand how these rates are determined. This confusion extends to the theoretical level. In neoclassical interest-rate theory for instance, the interest rate is determined by the supply of and demand for loanable funds. Contrary to this view, the Post Keynesian approach suggests that the interest rate is determined by central banks as a key policy variable in pursuit of its monetary policy objective/s. This dissertation examines how the current and previous Governors of the South African Reserve Bank deliberately used short-term interest rates to exert an influence on the general level of short-term interest rates. In doing so, they implicitly adopted the Post Keynesian approach. This view is shared by most central bankers today, giving credence to the widespread recognition that short-term interest rates are determined as a policy variable and not by impersonal market forces.