

## Chapter Four

### Financial Liberalisation and the Return on Securities:

#### The Interaction of Macroeconomic Variables

#### Summary

*This chapter explores the relationship between expected returns on financial assets and changes in the macroeconomic variables following financial liberalisation.*

*Where financial assets are claims on the real sector, any thing, which affects the real sector, affects the return on underlying financial assets. It is crucial therefore to explore the relationship between monetary changes and real output. Financial liberalisation includes interest rate liberalisation and the reduction, perhaps the elimination, of inflationary pressures. These are termed monetary policy intervention*

*tools. If monetary intervention has an impact on real output then it would also have an impact on the returns on financial assets.*

*It has not been necessary in this Chapter to consider short-term relationships, because there is no controversy in that respect. Interest rate liberalisation increases both the nominal and the real interest rate. Therefore, yields on fixed-return assets always rise. In addition, as witnessed in many ESMs following liberalisation, the yield on variable-returns assets always increases in the short-term. This chapter concentrates on the long-term relationship between interest rate, inflation rate, credit availability, exchange rate, and real output growth.*