



Date 27 August 2014  
Marks 45  
Time 3 hours  
Examiner: Arnold Wentzel  
Internal moderator: Prof Lorraine Greyling  
External examiner: Dr Sandra Mollentze (SARB)

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Answer all the following questions:

**Question 1** [16]  
Macroprudential policy was a response to the financial instability and rising levels of risk in the banking system in recent years.

- a) Explain how excessive risk-taking led to the build-up of systemic risk and ultimately to the financial crisis. (4)
- b) Explain solvency risk and liquidity risk from the perspective of a commercial bank's balance sheet. (6)
- c) How does macroprudential policy (as envisaged by Basel III) aim to address:  
(i) solvency risk; and (ii) liquidity risk? (6)

**Question 2** [14]  
a) How closely does the SARB follow the monetary policy consensus? Organise your discussion around at least three prescriptions of the consensus view and draw a reasonable conclusion. (8)  
b) Identify two preconditions necessary for inflation targeting to be effective (from the transmission mechanism), and explain clearly why each precondition is necessary. (6)

**Question 3** [15]  
a) Explain how the Federal Reserve in the USA tried to influence the slope of their yield curve through quantitative easing. (4)  
b) How does quantitative easing affect the balance sheet of the central bank? (4)  
c) Explain why quantitative easing will not increase bank lending, but is more likely to increase spending on goods and financial assets. (4)  
d) Would one expect an independent central bank to engage in quantitative easing (yes/no/it depends)? Explain your answer. (3)

**END**