UNIVERSITY OF JOHANNESBURG	**Monetary Policy B** **EKN4807|MTE8x02** **SUPPLEMENTARY ASSESMENT** **SCHOOL OF ECONOMICS**

Date:	January 2019
Marks:	70
Time:	3 hours
Examiner:	Mr F Kirsten
Internal moderator:	Dr O Kwame
External examiner:	Dr A Pretorius

Question 1 (5)

"Central banks in emerging markets have come out of the crisis looking a lot better than their advanced economy counterparts" (Prasad, 2010). Explain this comment by referring to the reasons why central banks in emerging markets came out of the global financial crisis looking better than the central banks in developed countries. (5)

Question 2 (8)

There a various channels by which the monetary policy has an impact on the inflation rate, explain the asset price channel and the balance sheet channel, structure your answer around the importance of these channels in a South African context. (8)

Question 3 (10)

3.1 Persistently low interest rates can cause financial instability.

3.1.1 Explain the role that liquidity and central bank creditability play in creating financial instability (4)

3.1.2 Briefly explain how risk perception create financial instability (3)

3.2 Explain the difference between the risk-taking channel in the USA and South Africa (3)

Question 4 (8)

4.1 Explain time inconsistency in monetary policy, and how it creates problems for policymakers. (4)

4.2 Expectations can be rational and adaptive expectations. Explain which one does **not** cause time inconsistency, and why not. (4)

Question 5 [15]

5.1 Explain how a central bank can influence the slope of their yield curve through quantitative easing. (4)

5.2 Explain how the European Central Bank (ECB) tried to manage the sovereign debt crisis in Europe through open-market operations in the bonds of debt-ridden countries. (4)

5.3 In a fiat money system, an increase in government spending does not have a crowding-out effect, but will most likely put downward pressure on short-term interest rates. Explain how this works. (7)

Question 6 (10)

The central bank is known for wanting to maintain the stability of the financial system and so protect people's deposits, and therefore regulates and supervises commercial banks. It also makes it clear in its announcements that it will never bail out a commercial bank if it gets into trouble. They do this because they know that banks that rely on bail-outs will tend to engage in reckless lending.

6.1 What is financial stability? (3)

6.2 With the use of time inconsistency, explain why commercial banks know that the central bank's promise (to never to bail them out) is just an empty promise, so that they don't change their lending behaviour. (7)

Question 7 **(5)**

Since the financial crisis of 2007/8, the thinking about macroeconomic and monetary policy has changed. Explain the role of fiscal policy before the crisis and how this changed after the crisis. Differentiate between developing and developed economies (5)

Question 8 **(9)**

8.1 "Central banks could face some risks from the emergence of cryptocurrencies as relevant mediums of exchange with stable purchasing power" Bruegel 2018. Explain the various risk that cryptocurrencies can impose on monetary policy (6)

8.2 Briefly explain the current role of cryptocurrencies in creating systematic risk (3)

END!