



Date: 10 November 2018

Marks: 70

Time: 3 hours

Examiner: Mr F Kirsten

Internal moderator: Dr O Kwame

External examiner: Dr A Pretorius

Question 1 **(5)**

Explain why deliberate creation of inflation, in order to reduce unemployment, is self-defeating (according to the monetary policy consensus). (5)

Question 2 **(5)**

A developing country has certain policies to implement to make sure it combats the effect of a financial crisis. Explain what the short run response of the developing countries central bank should be and relate to how the SARB implemented their short run response? (5)

Question 3 **[10]**

Macroprudential policy was a response to the financial instability and rising levels of risk in the banking system in recent years.

3.1) Explain how excessive risk-taking led to the build-up of systemic risk and ultimately to the financial crisis. (4)

3.2) How does macroprudential policy (as envisaged by Basel III) aim to address:
(i) solvency risk; and (ii) liquidity risk? (6)

Question 4 **(7)**

2008 stock market crashes may have a severe impact on the economy, with some calling for intervention.

4.1 Explain how drops in asset prices affect the inflation rate in the conventional monetary policy transmission mechanism. (3)

4.2 Explain how interest rate policy can be used to counter dramatic falls in asset prices. (2)

4.3 Before 2008 Central Banks followed the “mop up” afterwards approach. Briefly Explain this mop-up afterwards approach (2)

Question 5 **(9)**

Explain the different views of instruments and regulations before and after the crisis as mentioned by Blanchard et al (2010). (4)

Should central bank also be a bank regulator and supervisor or should such tasks be handed to an independent hand. Write a report to highlight the dangers about the structure to achieve financial and price stability with the same authority by referring to the scope of the central bank. (5)

Question 6 **(14)**

6.1 If a country defaults on its sovereign debt, how does this affect the central bank of such a country? Focus on two things: (i) how it would affect this central bank’s function as lender of last resort; and (ii) how it would affect the balance sheet of that central bank.(6)

6.2 Critically discuss the following statement: "A nation with a sovereign fiat currency does not face a binding fiscal constraint." Discuss both sides of the issue and come to a reasoned conclusion. (8)

Question 7 **(10)**

“Central banks could face some risks from the emergence of cryptocurrencies as relevant mediums of exchange with stable purchasing power” Bruegel 2018

7.1 Explain the various risk that cryptocurrencies can impose on monetary policy (6)

7.2 Explain the various positive impacts of cryptocurrencies on the economy and the coexistence with monetary policy (4)

Question 8 **(10)**

8.1 Explain how central bank creates a liquidity shortage by referring to the balance sheets of the central bank and commercial banks (6)

8.2 How does quantitative easing affect the balance sheet of the central bank? (4)

END