COLLEGE	College of Business & Economics
SCHOOL	Economics
CAMPUS	APK
MODULE NAME	Monetary Policy B
MODULE CODE	MTE8X01
SEMESTER	Second
ASSESSMENT OPPORTUNITY	Final Assessment
MONTH & YEAR	November 2019

ASSESSMENT DATE	November 2019	**SESSION**	1
ASSESSOR(S)	Mr F Kirsten		
MODERATOR(S)	Dr O Kwame Mr M Sekome		
DURATION	3 hours	**TOTAL MARKS**	70

INFORMATION/INSTRUCTIONS

The paper has 3 numbered pages.
There are four questions with sub-sections.
A noiseless calculator is allowed.

Surname	
Initials	
Student number	

MARK ALLOCATION

Question 1	Question 2	Question 3	Question 4	Question 5	Question 6	Question 7
[10]	**[6]**	**[14]**	**[12]**	**[12]**	**[10]**	**[6]**

TOTAL	Mark awarded
[70]	

Question 1 (10)

1.1 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 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)

1.2 The inflation targeting consensus of Mishkin 2001 states that there are different choices to be made when choosing inflation targeting. Explain the choice between choice point or range inflation (3)

Question 2 (6)

Monetary policy has an impact on inflation with a lag due to the numerous channels in the monetary transmission mechanism. Explain the bank lending channel and asset price channel. Identify one point in each of these channels where a significant delay make take place, and explain what would cause the delay. (6)

Question 3 (14)

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

3.2 Describe a situation where the pursuit of price stability could be in conflict with the targeting of asset prices. (4)

3.3 You are appointed as Economic advisor for a small developing country Kiribatas. In recent times the economy of Kiribatas has grown at rates double of their last two decades. There is however a risk that Banks are not keeping to current regulation system implemented by the Central bank. Advise the panel on how the Basel accords could be used to solve this problem and point out which one of the Basel accords should be used in this specific case. Support your argument with a real world case study. (6)

Question 4 (12)

The sovereign debt crisis in the EU has shown that fiscal policy and monetary policy are interdependent.

a) Explain why the monetary policy consensus initially thought that monetary policy was superior to fiscal policy, and follow this up by explaining what made them realise that fiscal policy is also necessary. (6)

b) 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)

Question 5 (12)

5.1 In practice the bank lending channel of the transmission mechanism does not work as stated in textbooks. Explain why the textbook view is wrong. (4)

5.2 How does *more* quantitative easing affect the liquidity shortage that a central bank tries to maintain? Explain with reference to the central bank's balance sheet. (4)

5.3 If a government runs a budget *deficit* how will that affect the central bank's balance sheet and its liquidity shortage? Explain. (4)

Question 6 (10)

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

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

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

Question 7 (6)

Use the following diagram to explain how the interest rate in 2002 to 2004 led to a build of an asset price bubble (6)