

Exercise
EE432 Monetary Theory and Policy
B.E. International Program
Faculty of Economics, Thammasat University
Semester 2/2021

Instruction:

1. Please upload your **answers (short written answers and graphs) in pdf format**, together with **spread sheets and graphs in excel format** by 14 May 2022 (no later than midnight) via google classroom.
2. To place your answers, please put your name and student ID at the upper right corner of the first page of both files.
3. Exercise is worth 10 %

Question 1: Relationship between Inflation and Money Growth

- 1) Construct a scatterplot of annual data beginning in 1980 for inflation and money growth. Plot data of percentage change from a year ago of (i) headline consumer price index (taken from BOT Table EC_EI_027) on vertical axis and (ii) M2 (the values of M2 or broad money are reported in BOT Table EC_MB_004) on horizontal axis, respectively. Then, display a second scatterplot for inflation (measured as before) on vertical axis and interest rate (using 1-year fixed deposit rate: Min as proxy, taken from BOT Table EC_EI_027) on horizontal axis.
- 2) Which indicator is more closely linked to inflation: money growth or interest rate? Does that tell us which instrument is better? (See Chapter 20)

Question 2: Is Investment Sensitive to Real Interest Rate

- 1) Plot since 1990 a measure of the real interest rate (on quarterly basis) – based on the difference between the Moody's Baa corporate yield (FRED code: BAA) and a survey of expected inflations (FRED code: MICH). Then, on the right scale, plot the share of investment (FRED code: GPDIC1) to real gross domestic product (FRED code: GDPC1) on quarterly basis.
 - 2) Explain the cyclical pattern of investment and how does real interest rate determine this spending. (See Chapter 21)
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