

**Quiz 1: Central Banking (10 points)**

**1 What is most central banks' primary monetary policy objective, regardless of their monetary policy frameworks? And why? (2 points)**

Most central banks aim to maintain "**price stability**" (low and stable inflation) as their primary monetary policy objective because price stability is a necessary (but not sufficient) condition for *long-term* sustainable economic growth/economic stability.

The role of price stability :

- Maintain consumers' purchasing power
- Encourage long-term production, savings, and investment (by reducing uncertainties and risks in doing business and thus allowing economic agents to make decisions and plans)
- Support national competitiveness of exports

**2. The Bank of Thailand, under the inflation targeting regime, conducts monetary policy by using short-term interest rate (1-day repo rate) as its policy instrument. The MPC decided to *raise* the policy interest rate by 25 basis points as a result of rising inflation pressure and overheating economy. Choose the likely effect of such monetary policy decision, other things being equal, on the following elements (8 points):**

	Increase	Decrease	Uncertain
Money-market interest rates and bank (lending and deposit) rates	√		
Long-term interest rates			√ (Depends on the expected future ST rates)
Bond prices			√ (Depends LT rates)
Stock prices		√	
House prices		√	
Exchange rate (THB/USD)			√ (Depends expectations about domestic and foreign interest rates and inflation)
Expectations on economy			√
Aggregate demand		√	