Final Examination Outline
EE432 Monetary Theory and Policy
B.E. International Program
Faculty of Economics, Thammasat University
Semester 1/2020

Please be noted that you may need to go through lectures delivered in classes. This guide could help you to focus on some selected topics.

Final Examination Outline

1. **Define some monetary economics concepts and small case studies discussion (45 marks)**
   1) ***Recap I***
      Chapter 17: deposit expansion (write formula), money multiplier (write formula)
      Chapter 18: target federal funds rate, inflation targeting,
      Chapter 18: Taylor rule (write formula), output gap (write formula)
   2) ***Recap II***
      Chapter 21:
      long-run equilibrium condition (explain and draw diagram);

      long-run aggregate supply curve (explain and draw diagram)
   3) ***Recap III***
      Chapter 20: quantity theory of money (write formula), transactions demand for money
      Chapter 23: balance-sheet channel, asset-price channel
      Chapter 19: impossible trinity, speculative attack
      Additional lecture (Lecture 15): short-run non-neutrality of monetary policy, nominal rigidities
      Additional lecture (Lecture 15): non-accelerating inflation rate of unemployment (NAIRU), modern monetary theory

2. **Explain how central banks conduct their monetary policy to achieve some specific objectives. Use table to illustrate change in balance sheet composition; assets and liabilities and draw diagram to show the adjustment in target policy rate (45 marks)**

   Please read through

   Recap I
   Changing the Size and Composition of the Balance Sheet; Open Market Operations;
   The Federal Reserve's Conventional Policy Toolbox; The Target Federal Fund Rate and the Interest on Excess Reserves

   Recap III
   Deposit Expansion, Money Multiplier; Money Growth and Money Demand; Banks and Bank Lending; Sterilized Intervention

3. **Read the arguments, then decide whether you agree or disagree with them. Discuss both sides of this argument and provide rigorous theoretical framework to support your claim: (40 marks)**

   Please read through
   Recap III
   Bank-Lending and Balance-Sheet Channels; Firms' Balance Sheets and Household Net Worth; Asset-Price Channels
   Financial Crisis and the Transmission of Monetary Policy; Booms and Busts in Property and Equity Prices; Deflation and the Effective Lower Interest-Rate Bound
   New Keynesian Model; Phillips Curve and Natural Rate of Unemployment; Modern Monetary Theory

4. **In the presence of demand or supply shocks, discuss why the central banks should respond to uncertainties. Using monetary policy response curve (MPRC), dynamic aggregate demand curve, short-run aggregate supply and long-run aggregate supply curve to draw diagrams, and referring to the monetary/macroeconomic theories to discuss how monetary authorities could employ monetary policies in response to the fluctuations. (70 marks)**

   Please read through

   Recap II

   Sources of Fluctuations in Output and Inflation; Positive Supply Shocks and the Opportunity They Create;

   What Happens When Potential Output Changes?; Can Policymakers Stabilize Output and Inflation Simultaneously?