Final Examination Outline
EE432 Monetary Theory and Policy
B.E. International Program
Faculty of Economics, Thammasat University
Semester 2/2018
25 May 2019 9.00 - Noon

Please go through 3 Recap lecture notes and prepare for the final exam by following the outline below.

1. **Define some monetary economics concepts (10 terms; 2 marks each):**

   There would be key following concepts as shown in recap lecture notes;

   1) Recap I
   Chapter 21:
   long-run equilibrium condition (explain and draw diagram);

   long-run aggregate supply curve (explain and draw diagram)

   2) Recap II
   Chapter 15: central bank's independence, central bank's transparency
   Chapter 17: deposit expansion (write formula), money multiplier (write formula)
   Chapter 18: target federal funds rate, inflation targeting,
   Taylor rule (write formula), output gap (write formula)
   Chapter 20: quantity theory of money (write formula), transactions demand for money
   Chapter 23: balance-sheet channel, asset-price channel

   3) Recap III
   Chapter 10: law of one price, purchasing power parity (write formula)
   Chapter 19: impossible trinity, speculative attack
   Additional lecture on New Keynesian model: short-run non-neutrality of monetary policy, nominal rigidities

2. **Explain how central banks conduct their monetary policy to achieve some specific objectives. Using table to illustrate change in balance sheet composition; assets and liabilities (15 marks in total):**

   Please read through

   Recap II
   Changing the Size and Composition of the Balance Sheet; Open Market Operations;
   The Quantity Theory of Money; The Facts about Velocity; Banks and Bank Lending

   Recap III
   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: (20 marks in total)**

   Please read through
   Recap II
   Unconventional Policy Tools; Forward Guidance; Quantitative Easing; Financial Crisis and the Transmission of Monetary Policy; Booms and Busts in Property and Equity Prices; Deflation and the Effective Lower Interest-Rate Bound

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. (25 marks in total)**

   Please read through Recap I
