**Final Examination Outline**
**EE432 Monetary Theory and Policy**
**B.E. International Program**
**Faculty of Economics, Thammasat University**
**Semester 1/2019**
**17 December 2019 9.00 - Noon**

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**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 - 12 terms (25 marks)**

   *There would be 12 key concepts chosen from these following terms as shown in recap lecture notes;*

   ***1) Recap I***
   *Chapter 14: government safety net, micro-prudential*
   *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,*
   *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***
*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: (50 marks)**

   *Please read through*
   ***Recap I***
   *Macro-Prudential Regulation; Unconventional Policy Tools*
   ***Recap III***
   *Bank-Lending and Balance-Sheet Channels; Firms' Balance Sheets and Household Net Worth; Asset-Price Channels*
   *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*
   *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. (80 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?*

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