

## **Guidelines for Final Exam (February 27, 2018)**

The exam will last for two hours and will have two sections, which will carry equal weights:

1. The first section will feature a choice of different short questions where you are asked to briefly explain an important aspect of the course. You will be asked to answer 6 questions from a list of 10.
2. The second section will be a mixture of discussion questions and technical questions focused on models. You will be asked to answer 2 questions from a list of 4.

If you decide to answer more than the required number of questions, I will grade the best six from Section 1 and the best two from Section 2.

The potential questions from both sections will be given out over the term by regular updates of this handout.

### **Possible Short Questions for Section One (More to follow)**

1. History shows it is possible to have monetary systems without the involvement of government. In practice, though, currencies are generally issued and controlled by governments. Discuss why this is the case.
2. What is a fiat currency system and how does it compare with non-fiat systems? Is it right to draw a sharp distinction between these two kinds of systems?
3. What is fractional-reserve banking and how does it work? Provide an example.
4. What does it mean when we say a bank has a solvency problem? How does it differ from a liquidity problem? How might the problems interact with each other? Provide examples.
5. How do central banks create money? Provide two examples.
6. What is described by a central bank's balance sheet? Should the public be concerned about a central bank's solvency?
7. Discuss the relationship between the monetary base and the money supply. Describe how this relationship has worked over the past decade in the US and Europe.

8. What is the Quantity Theory of Money and how well does it work in practice?
9. How has the Federal Reserve traditionally influenced the Federal funds rate? Why and how are its procedures changing?
10. How does the ECB influence short-term European money market interest rates?

### **Sample Long Questions for Section Two**

1. Milton Friedman proposed that central banks should operate by controlling the supply of money and expanding it at a low average rate. What was the basis for this advice? In light of the evidence available today, what are the weaknesses of such a policy?
2. Why do banking crises lead to large restrictions in credit? Describe the features of modern banking systems that have made systemic banking crises a greater risk and the issues these have raised for policy makers.
3. Describe the process in which various types of creditors get repaid when a bank is put into liquidation. Then describe some of the alternatives to a straight liquidation that regulators use as part of “bank resolution”. What considerations do governments have to take into account when deciding how to deal with a failing bank? How has European policy in this area evolved in recent years?