

Guidelines for Final Exam

The exam will have two sections:

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 pick 6 questions from 10.
2. The second section will be a mixture of discussion questions and technical questions focused on models. You will be asked to pick two questions from a list of five.

Sample Short Questions For Section One

1. What is fractional-reserve banking and how does it work?
2. What information is contained on a bank's balance sheet and what do we learn from it? Similarly, what is contained on a bank's income statement and what do we learn from it?
3. What does it mean when we say a bank has a solvency problem? How does it differ from a liquidity problem?
4. What useful functions are served by financial intermediaries?
5. How do central banks create money?
6. What is the relationship between the monetary base and the money supply?
7. What is the Quantity Theory of Money and how well does it work in practice?
8. Should central banks target the money supply instead of short-term interest rates?
9. How does the ECB influence short-term European money market interest rates?
10. What are capital adequacy requirements and how are they enforced?
11. Why might capital adequacy requirements lead to a credit crunch?
12. What is meant by "macro-prudential policy"?

13. What can be learned from the slope of the yield curve?
14. How do default risk and quality of collateral affect interest rates on different types of debt?
15. What is a liquidity trap?
16. What is quantitative easing? Why might a central bank employ it and what do they think it can achieve with this policy?
17. What are the expectations-augmented and accelerationist Phillips curves?
18. What are the benefits of price stability and why would a central bank ever pick a target inflation rate above zero?
19. Why might a government appoint a central banker who dislikes inflation more than the members of the government?
20. Briefly describe two important ways in which the Fed and the ECB differ in their approach to monetary policy.
21. What is the Taylor rule? What is the Taylor principle? Should rules like this be used to set monetary policy?
22. How does the choice of exchange rate regime affect a central bank's ability to control interest rates?
23. What is an optimal currency area? What factors go into deciding whether an economy should have its own currency or join a currency union?

Sample Long Questions For Section Two

1. How does financial intermediation work, why does it break down sometimes, and what are the consequences for the economy when it does?
2. "Central banks influence the economy by their control of the supply of money". Discuss.
3. What is the economic case for government regulation of the banking sector? What are the main types of banking regulation? How can banking regulation be improved?
4. Describe the features of modern banking systems that have made systemic banking crises a greater risk. How have policy-makers

- responded to these changes? What issues do they raise for future policies towards the banking sector?
5. Discuss the expectations theory of the term structure of interest rates. How well does the theory work in practice? How do we extend this theory to cover assets that have a risk of default?
 6. To what extent do central banks control the interest rates at which firms and households borrow? Discuss the various channels through which these interest rates affect economic activity. What can central banks do to influence the economy if short-term interest rates are zero?
 7. Discuss the expectations-augmented Phillips curve and the role it plays in models such as the one presented by Barro and Gordon. What do models like this imply for the design of central bank institutions? What influence have they had on international central banks over the past 20 years?
 8. Should central banks have explicit inflation targets? What are the arguments for and against two percent as a target rate of inflation?
 9. What are the factors underlying the current Eurozone crisis and what are the prospects for the common currency?

Strategies for the Exam

A few suggestions about the final exam:

- Whelan's Golden Rule of Exams: Please answer *all* the questions. Even if you don't know much about a question, *write something*. I do not want to fail people but the rules are that if you write nothing, you get zero. Even a short and very poor answer could still get 30%. The difference between this and zero could be the difference between passing and failing.
- I am not looking for very long discursive answers to the Section A questions. Short but accurate answers will do just fine. However, if I think three points are necessary for a good answer, then answers that only make two of these points will only get lower grades.
- In general, I don't have a good answer to "how long should questions be?" Ultimately, you have about ten minutes per answer in Section A and half an hour per answer in Section B. There is a wide range in ability among students in terms of how much material they can write. My only recommendations are to make as many good points as you can in the

allotted time and to try to avoid making bad points that show you don't have a full understanding.

- For some of the topics in the course, I have used equations to explain concepts and theories. I do this because I believe this is a useful way to explain these topics. For this reason, you should keep in mind that if you decide to answer questions on these topics without using any equations, chances are you are not explaining this topic as well as I would like. This will likely be reflected in your grade.
- The Section B questions are more substantive and a longer answer that makes more points will *probably* score higher. However, I am not looking for streams of waffle. If you are making a number of points in favour or against an argument, it may help to number your points or at least make it clear where one point ends and another begins.
- Using arguments from papers or speeches that you have read is one way to improve your essay and to allow you to discuss issues in more depth than you'd get from repeating my notes back to me.
- Exam questions are a very bad time to waste time expressing your own personal prejudices. You may think that the US government is the source of all evil or something like that and that's fine. But think carefully about whether these kinds of opinions make for useful contributions to essays for this course.
- I know that those of you with poor handwriting cannot do much about it (and the exam is not a test of handwriting) but spacing out your answers well and numbering your points can make it easier to assess your answers.
- Let me give you a rough guide to how I grade questions in this exam:
 - A: This tends to be given for answers that explain the issue very well, including each of the key points that I am looking for.
 - B: These tend to be answers that explain the issue reasonably well but that miss some of the key points that I think are important. They may also include some arguments that are not correct.
 - C: These answers tend to explain the topic poorly and perhaps get a number of things wrong.
 - D: These answers tend to show a less than satisfactory grasp of the topic.
 - E: Worse than D answers.