This paper is not to be removed from the Examination Halls

UNIVERSITY OF LONDON **279 0014 ZB**

BSc degrees and Diplomas for Graduates in Economics, Management, Finance and the Social Sciences, the Diploma in Economics and Access Route for Students in the External Programme

Monetary Economics

Wednesday, 17 May 2006 : 10.00am to 1.00pm

Candidates should answer **FOUR** of the following **TWELVE** questions. All questions carry equal marks.

PLEASE TURN OVER

1. How does a currency board operate? What problems are solved and what problems are created by adopting a currency board?

2. What are the economic effects of deflation? What policies might the authorities implement to overcome deflation?

3. What is meant by the zero bound, and what options exist for conduct of policy, when interest rates are at or close to the zero bound?

4. What theoretical issues are relevant in defining money? In terms of these theoretical issues, to what extent might credit cards be considered as money?

5. Compare and contrast the exchange rate, the money supply and the rate of inflation as targets for monetary policy.

6. Why is transparency important in the conduct of monetary policy? How can central banks most effectively achieve transparency?

7. What factors determine the relationship between rates of return on long-term and short-term government bonds, and between the returns on nominal and index-linked (or real) bonds? How should governments choose which types of debt to issue in order to finance their deficits?

8. Is hyperinflation a problem of monetary or of fiscal policy?

9. What are the theoretical foundations of the quantity theory of money? To what extent has this theory had empirical support? Does the quantity theory continue to have empirical support?

10. Do Central Banks have enough instruments with which to achieve the goals of both price stability and stability of the financial system? What are the arguments in favour of having some institution other than the Central Bank regulate financial institutions? Are there arguments in favour of leaving financial stability to market forces?

11. Explain the meaning of the term 'the neutrality of money'. Under what conditions might money be neutral? Explain why the 'classical dichotomy' is not necessary in order for money to be neutral.

12. Explain how flows of goods and financial capital between countries influence exchange rates between their currencies. Why do floating exchange rates tend to be volatile, and bear little relation to either the prices or quantities of internationally traded goods or services?

END OF PAPER