

ECON 462
STUDY GUIDE FOR FINAL EXAM

Theoretical Concepts

Central Banking

Discuss the dynamics of the money market and the implementation of monetary policy.

Discuss the similarities between the money market and the market for federal funds.

Distinguish between discretionary monetary policy and a ‘no-intervention’ monetary policy. How do they affect the aggregate economy?

What is a “Taylor Rule?”

Global Financial Markets

Illustrate with an AA/DD graph the effects of monetary and fiscal policy on output and the exchange rate. Make sure you address both, the case of flexible exchange rates and fixed exchange rates.

Discuss foreign exchange market interventions by Central Banks. Distinguish between an intervention to maintain an appreciated currency and one to keep a depreciated currency.

Suppose the Central Bank of country X sells 1 million of foreign reserve assets in the foreign exchange market. Illustrate the effect of this action on the balance sheet of the Central Bank, the money market, the price level, and output. Make sure you distinguish between a sterilized and non-sterilized intervention.

Financial Crises

Compare/contrast: debt crisis, currency crisis, balance of payments crisis and asset price crisis.

Identify how a crisis in a specific market may result in a crisis in the aggregate economy.

Comment on the typical policies implemented to deal with a financial crisis (income policies, fiscal correction, monetary reform, etc.). How are these policies different from those suggested by the IMF under the Absorption Approach?

Global Policy Making

Solve the following coordination games (find the Nash Equilibrium)

1. Suppose there are two policymakers from two different countries, A and B. They can choose to “cooperate” or “do not cooperate”. They meet only once and the payoffs are presented in the following matrix:

Strategy		Policymaker B	
		Do not Cooperate	Cooperate
Policymaker A	Do not Cooperate	0,0	20,-1
	Cooperate	-1,20	15,15

2. Suppose the policymakers have a repeated interaction, is it possible to have both countries to “Cooperate”? Explain

Consider the following: in a one-shot game, if you trade and your rival trades, you will each earn \$5 million in profits. If neither of you trade, your rival will make \$4 million and you will make \$2 million. If you trade and your rival does not, you will make \$10 million and your rival will make \$3 million. If your rival trades and you do not, you will make \$1 million and your rival will make \$3 million.

- a) Provide a normal form representation of the game
- b) What is the Nash equilibrium for the one-shot game?

From the Readings and Class Discussions

Be prepared to address a question on the articles posted on the website and class discussions.

From the Stiglitz book

Be prepared to address a question from chapters 6 to 10.

From the Presentations

Be prepared to address questions on the presentations.