

ECON 462
STUDY GUIDE FOR FINAL EXAM

Theoretical Concepts

Federal Reserve

Describe the structure of the Federal Reserve System

Identify and discuss the monetary policy tools available to the FED

Discuss the various transmission mechanisms of monetary policy. Recognize the relative importance of each one of them in the US economy. What is their relative importance in a developing economy?

Comment on the challenges policy makers face when implementing monetary policy (i.e. information, multiplier effects etc.).

Global Financial Markets

Derive the AA/DD diagram and illustrate 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. Under what circumstances are Central Banks likely to intervene?

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 the causes of a debt crisis versus a currency crisis.

Discuss the various factors usually associated with a currency crisis.

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?

Following Frankel and Rose (1996), how can you explain the fact that the situation of the current account and the budget deficit appear not to be associated with a currency crisis?

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 Presentations

You will be required to address questions regarding class presentations.