EC9240

THE UNIVERSITY OF WARWICK

January Examinations 2001/2002

Monetary Economics

Time Allowed: 2 Hours.

Answer TWO questions.

Read carefully the instructions on the answer book provided and make sure that the particulars required are entered on each answer book.

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1. What do structural vector autoregression studies tell us about the characteristics of the monetary transmission mechanism? Could Granger causality tests be used to overcome the identification problem?

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2. Explain the advantages of a cash-credit model over a simple cash-in-advance model. Is either model empirically plausible?

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3. Why do money supply shocks not have a persistent effect on output in standard monetary real business cycle models? Outline <u>one</u> way in which you would change the models to overcome this problem.

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4. Describe how a fully-specified dynamic general equilibrium model could be calibrated to produce dynamics matching those observed in the data. Why might the central bank still prefer to use simple monetary policy rules rather than the optimal rule suggested by the model?

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5. What effect does the presence of uncertainty have on the nature of optimal monetary policy? Is there a case for greater experimentation by the central bank to learn more about the monetary transmission mechanism?
