EC924 Monetary Economics

Sample exam questions

1. Discuss how to interpret the residuals of a vector autoregression model. What would be your reaction if tighter monetary policy actually increased inflation and what would you do about it?

2. What are the implications of the cash-in-advance model for the velocity of circulation of money? Describe two modifications that attempt to improve the model and discuss whether they have proved successful.

3. What are the key ingredients of a fully-specified dynamic general equilibrium model suitable for monetary policy analysis? To generate persistent output effects of money supply shocks is it more important to include nominal or real rigidities?

4. Explain why standard neoclassical monetary models fail to replicate the negative effect of positive money supply shocks on the nominal interest rate observed in the data. How could the standard model be altered to overcome this problem?

5. Why are simple monetary policy rules attractive to a central bank? Should the coefficients in the rule be smaller or larger in the presence of uncertainty?