

Economics 216, Fall 2020

Bates College

Final Exam

Thursday, October 15

Instructions: Answer 7 of the 8 questions on this exam. There is no length requirement but I suggest targeting 2-3 normal length paragraphs per answer. This is an open note exam and you may use any printed materials. Electronic devices, including calculators, are prohibited.

1. Under what condition might a Central Bank's emergency lending powers (*i.e.* lender of last resort) improve macroeconomic performance?
2. What are some of the factors that determine whether a Central Bank decides to manage its exchange rates with other currencies or whether it allows it to float?
3. Describe how changes to the U.S. unemployment rate influence the Fed's decision of where to set its Federal Funds Rate target. Ideally, you will describe both current and past Fed policy.
4. What are the most important new monetary policies that the Fed implemented in response to the Global Financial Crisis of 2008 and the covid-19 crisis of 2020?
5. In the 1970s, at least one U.S recession was clearly connected to a reduction in aggregate supply. Why are supply driven recessions especially challenging for Central Banks like the Fed?
6. How did the Fed's response to the Great Recession differ from its response to the Great Depression?
7. How did Central Bank's decisions contribute to the East Asian Financial Crisis of 1997?
8. Consider a Central Bank like the Peoples' Bank of China which has managed exchange rates through most of its history. What are the advantages and disadvantages of a monetary policy that results in an artificially weak currency?