

Economics 216, Fall 2020
Bates College
Practice Questions for the Final

The Fed

1. What type of economic data are most likely to cause the Fed to raise or lower interest rates?
2. How does an FOMC decision to lower interest rates help stimulate the economy in ordinary times?
3. How might monetary policy stimulate the economy even when the Fed is at the effective lower bound?
4. Why was the Federal Reserve initially created and why was it more decentralized than other Central Banks around the world?
5. What are the economic implications of the Fed's balance sheet expansion since 2007?
6. Under what circumstances is monetary policy less effective than fiscal policy in stimulating a depressed economy?
7. Why did the Fed adopt its new "average inflation targeting policy"?
8. What is meant by the term "lender of last resort"?
9. How does forward guidance work?
10. what novel policies has the Federal Reserve implemented so far in 2020?
11. True or False? Fed Chair Jay Powell can run the forty yard dash in under 4.2 seconds.
12. Why has the Fed switched from holding mostly short-term debt in 2007, to holding mostly long-term debt today?

13. What is the effective lower bound on interest rates?
14. Why hasn't the Fed expanded funding for unemployment benefits and PPP loans?
15. How can Central Banks like the Fed handle aggregate supply shocks?
16. Why are many observers disappointed with the Main Street Lending Program? Would it help if it were renamed the Maine Street Lending Program?
17. Why do Central Banks fear deflation more than an equally sized inflation?
18. What is stress testing and does it make financial crises less likely?

Looking Back

1. Why did Ben Bernanke blame the Fed for the Great Depression?
2. How did the Fed's role in the economy during the 1930s differ from its role today?
3. What would the optimal monetary response to the Great Depression have looked like?
4. True or False? Monetary policy is solely to blame for the rise in U.S. inflation during the 1960s and 1970s.
5. Why was a lack of Fed credibility a problem in the 1970s?
6. What caused the Panic of 1907?
7. Did the U.s. suffer from a hyperinflation in the 1970s?
8. What caused the Volker Recession?
9. How does the Federal Reserve Act restrict the Fed's ability to make emergency loans?
10. How will the Fed respond to simultaneous outbreaks of Captain Tripps, the Georgia Flu, and whatever that disease was from the movie Outbreak when they happen in December 2020.

Other Central Banks

1. True or False? Keeping a currency artificially weak often leads to a currency crisis?
2. How has PBOC policy changed since the early 2000s?
3. Why do many central banks which manage exchange rates also impose capital controls?
4. Define the Trilemma?
5. How can monetary policy encourage economic development in small open economies?
6. What mistakes did East Asian Central Banks make to contribute to the 1997 currency crisis?
7. How can currency crises spread among countries?
8. Should I have another cup of coffee?
9. Why do hyperinflations lead to major declines in GDP?
10. Why do many economists think Central bank independence is important?
11. How was Zimbabwe's hyperinflation measured?
12. What is expropriation risk?