The Conduct of Monetary Policy
ECON 4673
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Problems

1. What are the two different types of asset-price bubbles? How are they different? Which one usually leads to a mild recession and which one leads to a deep recession.

2. Briefly describe two ways a central bank can help prevent asset-price bubbles.

3. Briefly explain inflation targeting. What are the four advantages and four disadvantages of inflation targeting.

4. Briefly describe the four lessons monetary policy learned from the 2008 Financial Crisis.

5. What might cause a central bank to fall into the time-inconsistency trap of pursuing overly expansionary monetary policy?

6. What procedures can the Federal Reserve use to target the federal funds rate? Explain why a Federal Reserve policy to target the federal funds rate causes the central bank lose control of nonborrowed reserves?

7. What does the Taylor rule imply about how policymakers should adjust their federal funds rate target in each of the following scenarios?

    a. The unemployment rate rises due to a recession.

    b. An oil price shock causes the inflation rate to rise by 1% and output to fall by 1%.

    c. The equilibrium real interest rate falls.

    d. Potential output declines while actual output remains unchanged.

    e. The Federal Reserve lowers its target inflation rate.