Study Questions No 7 (March 8, 2012) Last list of study questions. This list includes questions covering the last week of class.

Economics 130
Winter 2012

These key terms and questions are designed to help you in your understanding of the material covered in class and in the textbook.

Key terms:

Key Terms: inflation target; Taylor rule; time inconsistency; interest rate smoothing; conservative policymaker; discretionary policy; monetary-policy rule; transparency; quantitative easing; qualitative easing; central bank credibility

Questions:

1. What were the primary causes of hyperinflation in Germany in the 1920s?
2. What were the primary causes of hyperinflation in Zimbabwe? How did it stop?
3. What is the difference between quantitative and qualitative monetary easing?
4. Prior to this current episode (2007-12), name two countries that pursued quantitative easing and did not subsequently experience very high inflation rates? Why not?
5. Inside the Fed in 2006: Fed policymakers seemed to think the economy was in fine shape in early 2006, lauding Greenspan for his running of monetary policy, and largely dismissing emerging problems in the housing market. Was the problem that Fed officials didn’t have enough data on the economy (e.g. how widespread subprime mortgages or CDOs or MBS really were) to understand the problem? Didn’t understand the linkages between housing, subprime mortgages, derivative, the financial sector and the economy? Or were other factors at work?
6. What was Rajan’s main theme in his paper on risks in the financial system?
7. Criticism of Rajan’s thesis was sharp. Explain three critical points. Were Rajan or his critics right in the light of subsequent events?
8. What views did Christine Largarde express in the movie “Inside Job”? What position did she hold at the time, and what position does she hold now?
9. A former Vice Governor of the Fed, Frederik Miskhin, in the movie “Inside Job,” explained that he left the Fed during the financial crisis for what reason?
10. Highlight the three major causes of the financial crisis in the movie “inside job.” What is your major criticism of the movie?
11. Questions 3, 4, 5, on pages 480-481.
12. Questions 2, 3, 7 on pages 516-517.