Questions TA 6 session

Question 1

What are the two factors that are related to the current inflation in the new Keynesian Phillips curve?

Select one or more:

- ☐ a. Nominal shocks
- ☐ b. Real marginal cost
- ☐ c. Output gap
- ☐ d. Expected inflation

Question 2

The Taylor rule was introduced in Taylor (1993) to describe the interest rate decisions of the Federal Reserve, relating the target for the federal funds rate to the following items.

Select one or more:

- ☐ a. The percent deviation of real GDP from potential output.
- ☐ b. Money supply
- ☐ c.
  Inflation

Question 3

The classic Fisher effect suggests that nominal rates and inflation move together in the long run. This prescribes the conventional central banking practice in that we want to increase the nominal interest rate when inflation is high relative to the inflation target and to decrease the nominal rate when inflation is low relative to the inflation target.

Select one:

- True
- False

Question 4

Consider the mechanism of money creation and quantitative easing (QE). Suppose the Bank of England purchases 1 billion government bonds from commercial banks.
This increases the assets of commercial banks. True or False?

Select one:

- ○ True
- ○ False

Question 5

Under the current floor system, the aggregate level of central bank reserves is excessive relative to the amount of reserves commercial banks would choose to deposit at the Bank of England to manage their liquidity needs. True or False?

Select one:

- ○ True
- ○ False