

Short Questions

Student's Name

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1. What does Blanchard identify as the accepted explanation of the financial crisis?

Olivier Blanchard defined the financial crisis to be the result of the interaction of excessive leverage in the financial system as well as the extensive interconnectedness along with the complexity of balance sheets of banks with non-banks (Olivier, 2015).

Why does this matter?

The crisis matters in that it unearthed the presence of unnoticed, systemic risks within banks, and non-banks. Therefore, there have been efforts that have become inculcated to improve our knowledge as well as the measurement of systemic risks.

2. What is the game of cat and mouse that Blanchard refers to?

The game of cat and mouse that Blanchard refers to is whereby macro prudential tools have been designed to target and deal with the numerous scope of financial risk. However, there are financial entities that utilize new ways to get around the macro-prudential tools.

What are the normal tasks (traditional mandates) of monetary and fiscal policy that they can go back to?

The normal tasks of fiscal policy and monetary policy are to accelerate growth in case an economy starts slowing down (Olivier, 2015). Also, they can be used in moderating growth during the time an economy is overheating.

3. What is the difference between a single mandate for a central bank vs. a dual mandate?

A single mandate of the central bank ensures that price stability is the fundamental objective of the monetary policy while subordinating other prospective objectives. A dual mandate, on the other hand, identifies two objectives, price stability, as well as full employment, which it ensures, are put on an equal footing.

A dual mandate is tricky in that there is much concentration of efforts on a particular variable, thereby putting another variable at risk.

4. What is the problem with being at the zero lower bound on interest rates?

Zero lower bound on interest rates may affect the working monetary policy by complicating the creation of expansionary monetary policy (Olivier, 2015). This coerces the central bank to rely on nontraditional as well as less familiar tools like quantitative easing. Thus the capacity of the central bank to stimulate economic growth becomes limited.

Where are we today?

Currently, the Fed has lowered interest rates, which have encouraged more borrowing along with investment, thereby improving economic growth within the United States.

5. What happened to the debt-to-GDP ratio as a result of the financial crisis?

During the financial crisis, the debt-to-GDP ratio of the US increased considerably as it opted to increased borrowing from financial institutions as well as other countries. Its debt-to-GDP ratio immensely skyrocketed as it owed several creditors money it was lent.

What are the consequences of a high debt-to-GDP ratio?

Potential creditors may not lend a country with high debt-to-GDP ratio money due to high debts it owes other countries. Also, creditors are compelled to ask for higher interest rates when lending money.

6. Provide an example of an issue related to fiscal policy.

An example of an issue related to fiscal policy is increased government spending to increase the aggregate demand and also to draw down budget surpluses.

Unpack the question, “What are the multipliers on fiscal consolidation?”

Fiscal multipliers include fiscal policies that have been instituted by the government to cut down on the amount of money used in spending. Also, fiscal multipliers comprise reduced wages and increase taxes.

What is the logic of a fiscal golden rule, separating current account and capital account (not in the sense of the trade data as discussed in Chapter 3, but....

The guideline of the Golden Rule dictates the operation of fiscal policy. For instance, the Golden Rule adduces that the government can engage in borrowing with the primary objective of investing but not to fund spending.

7. Provide an example of an issue related to monetary policy.

An example of monetary policy is when the Federal Reserve buys and sells government securities through open market operations. In this way, it can control the money supply as well as interest rates. Moreover, the FED can buy bonds from banks, thereby adding money within the banking system of the government. The FED can engage in the purchasing of bonds to reduce the supply of money.

References

<http://blogimfdirect.imf.org/2015/04/02/contours-of-macroeconomic-policy-in-the-future/>.