

Ollscoil na hÉireann, Gaillimh
National University of Ireland, Galway

Semester II Examinations, 2004/2005

Exam Code(s)	3BA1, 3BA5, 4BA4, 3BC1, 4BC2, 4BC3, 4BC4, 3FM2, 1EM1, 1OA1
Exam(s)	B.A., B.Comm., B.Comm. International, 3 rd B.Sc. in Financial Mathematics and Economics, Erasmus, Visiting Students
Module Code(s)	EC369
Module(s)	MONEY & BANKING
Paper No.	1
Repeat Paper	Special Paper
External Examiner(s)	Professor V. Munley
Internal Examiner(s)	Mr. B. Kennelly
	Mr. C. Twomey

Instructions:

Answer 4 questions.
 There are 100 marks in total.
 All questions will be marked equally.

If you attempt MORE THAN the correct number indicate
 clearly those questions which you wish to be graded.

Duration	2hrs
No. of Answer Books	1

Requirements:

None

No. of Pages	3
Department(s)	Economics

Instructions: Answer FOUR questions.
Each question is worth 25 marks.

1. IFSRA, the new Irish financial services regulator is divided institutionally into two divisions – ‘Prudential’ and ‘Consumer’ – to reflect the key functions of
- preventing systemic risk and
 - providing consumer information and protection.

Using examples, explain why the banking system is perceived to require more regulation than most other sectors in the economy on both dimensions.
(25 marks)

2. (a) Financial intermediaries provide five key functions. Using a diagram and/or examples, outline briefly any two of those functions.
(8 marks)

- (b) Banks are the most influential of all financial intermediaries; however, across the industrialised world, they currently face several challenges. Explain in detail any three of the key challenges facing commercial banks today and outline how banks have reacted.
(17 marks)

3. (a) Suppose the Bank of England buys sterling in the foreign exchange markets. Explain the effects on international reserves, the money supply, and the exchange rate if:
- it conducts an offsetting open market operation to sterilise the intervention, and
 - it does not sterilise the intervention.
- (12 marks)

- (b) One shortcoming of fixed exchange rate systems is that they can lead to foreign exchange crises involving a ‘speculative attack’ on a currency. Using a diagram, describe the events surrounding the sterling crisis within the Exchange Rate Mechanism (ERM) in September 1992.
(13 marks)

4. Suppose that, as an economist in the Central Bank of a large emerging market country currently experiencing high inflation, with a history of banking and currency crises, you are asked to evaluate possible monetary policy strategies for reducing future inflation.

For any two possible strategies, outline their advantages and disadvantages as a future monetary policy strategy for the country.

Hint: Use examples (e.g. Argentina, Russia) to support your opinion.
(25 marks)

5. Using your knowledge of any current or recent topic in international money and banking, write a short essay outlining what you believe to be the key issues.
(25 marks)

6. (a) Central banks typically have maintaining 'price stability' as their overriding, long-run goal.

Outline briefly why this is the case. (7 marks)

- (b) Otmar Issing, Chief Economist at the ECB, believes that "there is no 'single' or 'best' way to conduct monetary policy-making, and that different approaches or frameworks can lead to successful policies," from *"Inflation Targeting: Prospects and Problems"* Symposium St. Louis, USA, 16-17 October 2003.

However, others (e.g. Svensson) have argued that the ECB should imitate other central banks, such as the Bank of England, and adopt an explicit inflation targeting policy.

Using your knowledge of the ECB's current monetary policy strategy and historical record, write a short report evaluating the main issues raised by both sides of the inflation targeting argument.

(18 marks)