

ECON4335 Questions for seminar 4. Week 15

Question 1

1. Explain briefly what is meant by these concepts: a) Money, b) Central bank money, c) M_1 , d) Liquidity
2. Why is central bank money sometimes called "high powered money"?
3. Explain how the interest rate decisions of the central bank are transmitted to the private banks when the central bank practices a "corridor system" for the policy interest rate.
4. Central banks may use either the supply of base money or an interest rate as their main policy variable.
 - (a) Compare how the volume of bank credit in the economy is determined in the two cases.
 - (b) Suppose the banks decide to increase the ratio of their liquid reserves relative to deposits. Compare the effects this will have on the volume of bank credit and on the interest rates on bank loans in the two cases.

Question 2

List some risk factors for systemic banking crises and discuss whether they were present before the Norwegian banking crisis 1987-1992.