

Credit Point Exam „Money and Financial Markets“

Winter term 2010/2011

Last Name: _____

First Name: _____

Matrikelnr.: _____

Duration of the exam: 60 minutes

Answers in English or German possible.

Please short answers.

Please indicate if you are interested in participating in a seminar
on “Monetary Economics” in the summer term 2011:

1. *Information asymmetry*: [16]

- a) When making a contract between a provider and a receiver of a financial fund, the problem of adverse selection arises. Explain this by the example of a debt contract.
- b) Explain the basic idea of the credit rationing effect (Stiglitz/Weiss) by means of appropriate graphics. Why could this cause inefficiency?

2. *Portfolio Choice*: [16]

Consider a balance sheet consisting of bonds B , loans L and reserves E with $\mu_B < \mu_L$, $\sigma_B^2 < \sigma_L^2$ and $\mu_E = \sigma_E = 0$. Explain graphically and verbally how the bank chooses the optimal mix of risky assets as well as the optimal mix of the risky portfolio and the riskless asset E . Assume that there are no other constraints to the portfolio choice.

3. *Money supply and demand*: [16]

- a) Consider a static money multiplier $dM1/dM0 = \bar{m}$. Discuss briefly the shortcomings of such a static multiplier analysis.
- b) Derive the endogenous money multiplier in the Bernanke/Blinder model.

4. *Monetary policy*: [12]

- a) What are the “social costs” of inflation?
- b) Describe formally and verbally the Taylor rule of monetary policy.