

# International Islamic University Chittagong (IIUC)

Department of Economics & Banking

Final Examination: Spring-2019

Program: BSS(Honors)

Course Code:BNKG-2403

Course Title: Central Banking

Time: 2.5 Hours

Full Marks: 50

*Answer any Five of the following questions. All parts of a question must be answered sequentially. Figures in the right margin indicate full marks.*

1. (a) What does monetary stability mean? Is it different from price stability? 03  
(b) Explain the sources of disruptions of financial environment 03  
(c) Why is financial stability an important mandate for central banks? 04
2. (a) Write and explain the equation representing the quantity theory of money with necessary assumptions. According to the quantity theory of money, if the amount of money in the economy rises, what would happen in the long run? 05  
(b) How does the Phillips curve represent the relationship between inflation and unemployment graphically? Please draw a short-run Phillips curve. 05
3. (a) Mention the key differences between the financial sector and the real sector? 02  
(b) By using policy interest rate how can a central bank tighten conditions in the money market? 03  
(c) Briefly explain transactions handled in the key financial markets and the intervention which central banks conduct in those markets in a tabular form. 05
4. (a) Suppose, there are large inflows of capital, then what is likely to happen to the country's exchange rate? Why? Now, conceptually how can the central bank under an exchange rate targeting regime keep the exchange rate within its announced target? Explain graphically. 06  
(b) Under inflation targeting, how do transparency, accountability, and credibility of the central bank come into play? 04
5. (a) Why could there be diverse views as to the definition of financial stability? 02  
(b) Give examples of different views on the definition of financial stability. What elements might be common among these views? 05  
(c) How could weaknesses in households, firms, or the government's balance sheets affect stability of the macro economy? 03
6. (a) Precisely explain "Taylor Rule" and "Goodhart's Law". 02  
(b) Referring to the Diamond-Dybvig model, why might a bank run be a facet of an equilibrium state of banking? 04  
(c) Why do you think operational independence of Bangladesh Bank is required for betterment of our country? 04
7. Answer any two of the following: 10
  - i. NAIRU and the long run Phillips curve;
  - ii. Risk management approach of monetary policy; and
  - iii. Open market operation.