**RWS#2 MACRO: Financial Markets & Monetary Policy**

**Due your last lesson of W/C 5th November 2018 – 2 sides of 1 single A4 sheet (printed and ready for collection)**

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| **GENERAL INSTRUCTIONS:**  Produce a revision worksheet to summarise your work done on **Financial Markets & Monetary Policy**. This piece of work should be taking you up to **2.5 hours** to complete and should consist of **two sides,** of **one single A4 sheet**. Ensure your revision worksheet is **word processed** and printed off your **BEFORE the lesson**. It must all fit onto one page of A4 paper – double sided!!! You need to set your **margins to narrow** and **reduce the font size** to fit it all in!  **ANY QUESTIONS OR ISSUES, EMAIL Stuart on** [**sdh@godalming.ac.uk**](mailto:sdh@godalming.ac.uk) **☺** | |
| **SPECIFIC INSTRUCTIONS: TITLE: Financial Markets & Monetary Policy**   1. **Monetary Policy (1/2 a side of A4)** 2. Define ‘Forward Guidance’ and outline the Forward Guidance put in place by the BoE in 2013. 3. Explain, with use of a diagram, how the BoE use interest rates to control inflation in the UK economy (refer to the ‘monetary policy transmission mechanism’ in your answer. 4. Evaluate, with use of a diagram, the impact of QE on macroeconomic performance (present as a table with columns for analysis and evaluation).      1. **Financial Markets (1/2 a side of A4)** 2. Outline the differences between i) Money Markets, ii) Capital Markets and iii) For Ex Market. 3. **i)** Explain how a bonds ‘nominal value’, ‘coupon’ and ‘maturity date’ are inter-related **ii)** Calculate the yield on a corporate bond with a nominal value of £50 and a market value of £60 (the coupon is 3%) 4. Explain how a fall in the BoE base rate affects bond prices and bond yields (you could present this as a flow diagram or in bullet points of analysis). 5. **Commercial Banks & Investment Banks (1/2 side of A4)** 6. Identify 3 functions of ‘commercial banks’ and 3 functions of ‘investment banks’. 7. Explain the concepts of i) ‘systemic risk’ ii) ‘moral hazard’ and iii) ‘banking liquidity crisis’. 8. Evaluate the macroeconomic benefits of commercial banks ‘creating credit’ via the money multiplier (present as a table with columns for analysis and evaluation). 9. **Regulation of Financial Markets (1/2 side of A4)** 10. Outline the roles of the i) Financial Policy Committee, ii) Prudential Regulation Authority and iii) Financial Conduct Authority. 11. Research 3 case studies (1 case study for each of the regulatory bodies above) where the regulatory body has commented or intervened in a financial market. Provide a summary of each case study. 12. Evaluate 1 macroeconomic benefit of the BoE establishing a capital ratio of 7% (hint: think about the benefits and drawbacks of commercial banks creating credit). | |
| **SOURCES YOU MAY WANT TO USE**   * **Textbooks Chapter 9 (p226-264) – AQA Economics 2 (Powell) – COPIES AVAILABLE IN THE LIBRARY!** * Worksheet and Ppt from lessons (attached to email) * QE video: <http://www.tutor2u.net/economics/reference/quantitative-easing-qe> * Credit creation: <http://www.tutor2u.net/economics/reference/financial-economics-creating-credit> * Credit creation video: <https://www.youtube.com/watch?v=eTqT0psuSjk> | **EXTENSION**   * Bank of England report – impact of liquidity regulations <http://www.bankofengland.co.uk/research/Documents/workingpapers/2015/swp536.pdf> * Bank of England – bank capital and liquidity <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2013/qb130302.pdf> * Financial Policy Committee report <http://www.bankofengland.co.uk/publications/Documents/news/2016/033.pdf> |