



THE ANSWERS MUST BE ATTEMPTED ON THE ANSWER SHEET PROVIDED

Q.1. Write short answers to the following questions. (5x6=30)

1. What is granger causality test and why is it used?
2. Explain time inconsistency of monetary policy?
3. Briefly explain exchange rate targeting? What are its advantages?
4. What is meant by capital controls? What significance capital controls have in monetary policy?
5. What are the transmission channels of monetary policy?

Q.2. Write detailed answers to the following questions. (3x10=30)

1. What are foreign exchange rates and why are exchange rates important? Discuss various factors that change exchange rates.
 2. Should monetary policy be conducted by rule or by discretion? Support your argument with the help of examples.
 3. "Monetary policy is much more effective in curbing a boom than in helping to bring the economy out of depression". Critically evaluate the role of monetary policy as a stabilization tool in light of the above quotation.
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