

Econ Club – Economic Policy – Sir Charles Bean Resources

Questions for Further Discussion/Debate

1. What economic indicators do you think MPC should focus on in judging the strength of the ‘second-round’ effects of the current inflation spike?
2. Do you think such ‘second-round’ effects will prove weaker or stronger than in the 1970s? Why?
3. Should support to households in dealing with higher energy costs be universal or targeted at the poor? What are the pros and cons of each?
4. Could the government have difficulty in delivering the planned medium-term restraint in public spending? Why?

Source Based Questions

The questions below are all linked to the sources above them. Read through the sources prior to answering the questions.

[The Conversation - Will the Bank of England’s reliance on quantitative easing work for the UK economy?](#)

1. Write a detailed chain of analysis explaining how quantitative easing should boost aggregate demand.
2. The article suggests that “the bank may see QE as a precautionary measure to avoid deflation...”.
 - a. Explain how QE can raise the rate of inflation.
 - b. How likely is this explanation considering the state of the economy at the time the article was written (November 2020)?

[UK Labour Market Exodus Drives Jobless Rate Down to 3.5% - Reuters](#)

1. Using a demand and supply diagram, explain how a fall in the labour supply may lead to inflationary pressure.
2. Devise a policy response to address the increase in economic inactivity experienced in recent months.

[The Fed is Giving Americans a Harsh Lesson in Lag Time – Washington Post](#)

1. Explain one of the transmission channels of monetary policy
2. Explain how expectations might impact the time taken for monetary policy to take effect.
3. The article states “Today inflation expectations are clearly unanchored”. Using your economic understanding, explain why current expectations of inflation may be seen as unanchored.
4. The article states that “for monetary policy to work, people have to believe the Fed can, and really has the will, to bring inflation down”. Given your understanding of the causes of inflationary pressure, as well as the general economic environment, do you believe that central banks around the world have the ability to address inflationary pressure? Explain your answer.

[IMF Chief to UK Officials: Keep Calm and Get Coherent - Reuters](#)

1. What are the benefits of having an independent central bank?
2. The article states “fiscal policy should not undermine monetary policy because, if it does, the task of monetary policy only becomes harder”. Using a diagram, explain how aspects of the Truss/Kwarteng mini-budget created this scenario.

Further Reading

- [Quantitative Easing, Monetary Policy Implementation and Public Finances – Institute for Fiscal Studies](#)
- [Central Bank Support to Financial Markets in the Coronavirus Pandemic – International Monetary Fund](#)

- [Lags, Trade-offs and the Challenges Facing Monetary Policy – Ben Broadbent, Deputy Governor of the Bank of England](#)