

## ECON4033: Money and Finance in China

### Assignment 2: Short Answer

**Please save your report in a single PDF file and submit your report to iSpace by 5 pm (Tuesday) Nov. 30, 2021. Input your answers in the answer sheet provided on the iSpace if you so wish. Both hand-writing and typing reports are acceptable. Assignment 2 accounts for 20% of your final mark of this course.**

1. Read the following 3 articles on the iSpace to answer the questions below based on your understanding of China's banking sector:
  - Ant's dangerous business model (Forbes)
  - Ant ordered to restructure by Chinese regulators (The Financial Times)
  - China tightens online lending rules in fresh blow to Jack Ma's Ant Group (The Financial Times)
  - a) How Ant's financial services are different from those of traditional commercial banks? **(3 marks)**
  - b) Why Ant's business model could be dangerous to China's financial sector? **(5 marks)**
  - c) Why China's regulators have demanded Ant apply for a personal credit reporting licence? **(2 marks)**

**Total: 10 marks**

2. This question is related to exchange rate regime of China:
  - a) Explain the conflict between the fixed exchange rate regime and China's ability to tailor monetary policy to domestic objectives. **(3 marks)**
  - b) It is argued that moving to a more flexible exchange rate regime help to insulate China from the nominal (inflation) shock from abroad. Explain based on your understanding of purchasing power parity. **(3 marks)**

**Total: 6 marks**

3. This question is related to the public finance in China:
  - a) Describe the major difference in terms of the post-crisis fiscal expansion in China and the U.S. during 2008-2009. **(2 marks)**
  - b) What could be problematic if China focused on using tax relief to recover economy? Your answer should be informed by tax multiplier derived based on Keynesian model. **(2 marks)**

**Total: 4 marks**