

Guidance for Final Exam

Final exam date and time:

- Thursday, May 19, 9:00 AM – 11:30 AM
- No rescheduling / make-up exam (unless we've already talked or you have a dean's note)

Classrooms:

- Sage B01: Last name starts A-E
- Sage B05: Last name starts F-K
- Sage B08: Last name starts L-R
- Sage B09: Last name starts S-Z

Midterm Review and Office Hours:

Last week of class:

- Usual office hours for TA and professor
- Schedule for reading week / exam week. All are optional:
- Sam's review session: Sunday, May 15, 2 – 3 PM, Sage Room 141
- Sam's office hours: Sunday, May 15, 3 – 4 PM, Sage Room 141
- Kate's review session: Monday, May 16, 2 – 3 PM, Sage Room B11
- Kate's office hours: Monday, May 16, 3 – 4 PM, Sage Room B11
- Prof. Baron's office hours: Wednesday, May 18, 1 – 3 PM, Sage 401J

Exam Format:

- Approximately 25 multiple choice questions (just like the midterm but twice as long)
- 10 points each
- Must do all questions, no penalty for guessing
- Must provide explanations and/or calculations for ALL questions
 - 5 points for correct answer
 - 5 points for correct explanation / calculation (partial credit given)

Exam day (same procedures as for midterm)

- Bring a handheld calculator, "cheat sheet", and pen
 - Must use a pen, not pencil
 - Bring a double-sided 8.5' x 11' "cheat sheet"
- No books, computers, tablets, cell phones allowed

Topics Overview

- Covers the entire semester, with emphasis on second half
 - ~1/4 of questions will cover first half (i.e. midterm stuff: slides #1-6 & problem sets #1-5)
 - ~3/4 of questions will cover second half (i.e. slides #7-12 & problem sets #6, 7, 9, 11)
- Questions about first half will be straightforward, very similar to midterm + practice midterm questions (So just quickly review first half, mostly focus your study time on the second half)
- Questions on second half will be about 50% quantitative and 50% qualitative
- There will be NO questions directly about the case studies or readings (though ideas *also* discussed in the slides and in class are fair game)
- Complete topics list below

Best way to prepare for exam (in order of priority):

- Focus on the practice final exam questions (answer key also posted)
- Review lecture slides, especially from the second half
- Go over problem sets (except for case study assignments), especially from the second half
- From the first half of the course: review practice midterm and actual midterm – but don't spend too much time here, since the focus of the final exam will be on the second half.
- Again, nothing from the case studies or readings will be covered on the exam, so don't spend any time reviewing those

Detailed list of second-half topics to focus on:

- Fixed income
 - Calculating bond prices and YTM
 - Calculating duration and convexity
 - How bond prices change with interest rates
 - The linear and quadratic approximations
 - Term structure and the expectations hypothesis
- Financial markets and High-Frequency Trading
 - Limit order book trading, bid-ask spreads, price impact, market making
 - Characteristics of high-frequency traders; are HFTs beneficial for market quality?
- Interest rates and monetary policy
 - The Fisher equation
 - Know about: potential output, cyclical vs. structural unemployment, sticky wages, the NAIRU, inflation, the Philips curve, the natural interest rate, liquidity traps
 - IS-LM model: both the intuition and the type of question from the problem set
 - Policy experiments: what happens if C or G increases, etc.? How does this shift the curve?
 - Bank balance sheets: leverage, liquidity, ROE, net interest margins
 - The structure of the banking system and the Fed
 - Banks as intermediaries between savers and borrowers
 - Cash is a central bank liability

- Banks deposit money in the Fed
 - Broad money (M2) versus narrow money (M0)
- Currencies
 - Real exchange rates vs. nominal exchange rates
 - How they're determined in the long-run
 - Appreciation vs. depreciation, how this affects imports and exports
 - The pros and cons of floating exchange rates
 - Sticky real wages and adjustment problems / capital imbalances
 - Reasons countries have chosen fixed-exchange rate regimes (fiscal and monetary discipline)
 - Problems with overvalued currencies and sudden devaluations
 - Carry trades and covered/uncovered interest rate parity
 - Capital flows and the current accounts
 - Foreign exchange interventions
 - The causes and consequences of currency crises: East Asia (1997-1998) and Argentina (2001-2002), (but not Europe (1992-1993), which we didn't cover in class)
- Financial crises and regulation
 - Causes and consequences of financial crises
 - Bank runs: the intuition of the Diamond-Dybvig model
 - The "shadow" banking system
 - Run on repo
 - The 2007-8 global financial crisis
 - Regulations studied in class
 - Basel III and capital requirements
 - Central clearing for Credit Default Swaps
 - Money market mutual fund reforms
 - Risk premia in the aftermath of financial crises
 - Intuition behind the intermediary asset pricing view