**TCHE 303 – MONEY AND BANKING**

**TUTORIAL ASSIGNMENT 8**

1. Why could eliminating the central bank’s independence lead to a more pronounced political business cycle? ***This will make it more shortsighted and subject to political intervention. Thus, when political gains could be achieved by expansionary policy before an election, the Fed might be more likely to engage in this activity (lower interest rate or raise money supply to stimulate the economy, gain encouragement from citizens) -> pronounced political business cycles might result.***
2. “The independence of the Fed leaves it completely unaccountable for its actions.” Is this statement true, false, or uncertain? Explain your answer. ***False. The Fed is still subject to political pressure because congress can pass legislation limiting the fed’s power. If the Fed perform badly, Congress can therefore make the fed accountable by passing legislation that the fed does not like.***
3. “The independence of the central bank has meant that it takes the long view and not the short view.” Is this statement true, false, or uncertain? Explain your answer. ***Uncertain. Although independence may help the Fed take the long view, because its personnel are not directly affected by the electoral motivations, the Fed can still be influenced by political pressure. In addition, the lack of Fed accountability because of its independence may make the Fed more irresponsible. Thus it is not absolutely clear that the Fed is more far sighted as a result of its independence.***
4. While the Fed promotes secrecy by not releasing the minutes of the FOMC meetings to Congress or the public immediately, the ECB holds a press conference after each of its meetings. Discuss the pros and cons of each of these policies.

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| **Fed** | | **ECB** | |
| **pros** | **cons** | **pros** | **cons** |
| * The Fed maintains **flexibility** in adjusting its policies as economic conditions evolve. * Avoid sudden market reactions and excessive volatility. | * lacking transparency and accountability. * Make it harder for stakeholders to evaluate the Fed's decisions and hold it accountable for its actions. | * Provides immediate access to information and promotes transparency. * Align market expectations and reduce uncertainties. | * Market volatility. * Limit its flexibility to adjust policies swiftly if economic conditions or circumstances change rapidly. |