

Asset purchase programmes and quantitative easing

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I. Overview questions

Watch the film entitled "Asset purchase programmes and quantitative easing".

a) Whilst you watch, make notes on the following questions:

1. What is the objective of the Eurosystem and how can it be achieved?

2. What is quantitative easing (QE) and why is it used?

3. What are the effects of quantitative easing?

b) Compare your notes with a partner's and add to them if necessary.



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2. Cloze on “quantitative easing”

Watch the film closely and fill in the gaps. A link to the film text is available on the website below the film.

a) When is quantitative easing (QE) used?

_____ can be used if the
_____ needs to increase, but the policy rate
cannot be _____ any further. The Governing Council
may then decide that the Eurosystem’s central banks should
make large-scale purchases of securities, particularly
_____.

b) What effects does quantitative easing have?

Asset purchases have _____ major effects. First, they increase
the volume – or _____ – of _____
_____, which gives commercial banks more scope for
_____. Second, the longer-term _____
fall in response to the broad-based asset purchases. This is similar
to the effect of a traditional _____,
referred to as monetary policy easing. The term
“_____” is derived from these
two effects. They lead to _____ aggregate demand and
subsequently to _____ prices.



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- c) How does quantitative easing affect exchange rates and thus the inflation rate?

In addition to the two aforementioned effects, the lower _____ stemming from quantitative easing tends to result in capital outflows to countries where the interest rate level and thus expected interest income are _____. Such capital outflows lead to _____ demand for the domestic currency and bring about a _____ in the exchange rate. This makes domestic goods _____ abroad and thus boosts _____. The increased demand for domestic goods from abroad in turn additionally contributes to _____ prices. In this way, too, quantitative easing can raise the _____ and move it towards the target.



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3. Word search

Find the ten hidden terms on the topic of the quantitative easing. Search in all directions (horizontal, vertical, diagonal and overlapping).

Y	P	E	X	P	O	R	T	N	L	T	N	W	Z	Q	B	A
O	I	D	V	U	F	L	F	F	J	P	L	B	F	L	C	W
B	A	N	K	I	N	T	E	R	E	S	T	R	A	T	E	S
D	P	P	F	D	Y	W	O	N	W	V	H	Z	U	X	N	E
K	E	J	E	L	T	R	N	M	D	E	Z	N	P	G	T	G
V	D	D	H	X	A	M	K	B	Q	I	V	L	O	Z	R	D
W	C	D	I	K	C	T	S	J	Y	R	N	Y	L	Z	A	I
R	A	A	S	A	C	H	I	B	C	Q	A	G	I	E	L	E
G	F	S	H	W	Q	D	A	O	Y	M	V	C	C	F	B	V
I	F	R	X	U	C	S	C	N	N	Z	G	J	Y	W	A	Z
S	Y	I	E	L	D	H	G	D	G	R	D	S	R	M	N	E
D	O	F	C	B	S	Y	S	S	H	E	A	G	A	O	K	U
Y	U	M	M	I	U	U	R	I	E	S	R	T	T	F	M	T
Z	W	E	Q	J	D	O	S	B	D	O	W	A	E	B	O	U
M	Q	E	I	M	O	K	O	G	K	Y	C	M	T	N	N	I
M	O	G	E	A	A	C	H	Y	E	S	U	E	Z	E	E	B
M	P	R	I	C	E	S	T	A	B	I	L	I	T	Y	Y	W



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4. How asset purchases work in the context of quantitative easing

Enter the following phrases in the correct parts of the transmission mechanism:

- Government bond prices rise, while their yields fall.
- Capital flows to countries with higher interest rates, bringing about a decline in the exchange rate.
- The quantity of central bank money increases.
- Aggregate demand rises.
- Central banks buy government bonds.
- Enterprises can increase prices more easily and by a greater amount: the inflation rate rises.

