Unconventional monetary policy and quantitative easing

1/ Use the following words to fill in the blanks: *operations, easing, tools, liquidity supply*.
Unconventional monetary policy is a type of policy that was first employed extensively, following the global financial crisis (GFC) in 2008. It is a form of monetary policy that goes beyond the traditional ________ of interest rate adjustments, such as open market __________. Unconventional monetary policy mainly involves quantitative _________ (QE), whereby the central bank buys bonds and other assets to increase the money ____________ and lower long-term interest rates. The idea is that this provides banks with extra funding and ____________ to lend to the private sector, like households and companies. At the same time, by lowering long term interest rates, QE should encourage such private entities to borrow more money and invest in real estate and business development.

2/ Use the following words to fill in the blanks: *expansionary, based, target, agents'.*
Unconventional monetary policy has also entailed so-called "forward guidance". This means that the central bank indicates to the market what policy will be several months, or even years in advance. The idea is to improve the certainty of ___________ operating environment. Forward guidance may be "time-_____________": i.e. the central bank may indicate for how long a particular level of interest rates is likely to last, and when it may end. But forward guidance has also been used to __________ economic policy objectives. For example, in the early 2010s, the US Fed indicated it would pursue an _____________ monetary policy until unemployment came down to less than 7%. Given that central banks usually target inflation, this was quite unusual, although the Fed's mandate is also to support growth.

3/ Use the following words to fill in the blanks: *negative, borrowers, customers, reserves.*
Finally, some central banks, most notably the European Central Bank (ECB), have even resorted to _________ interest rates: i.e. they charge banks for the reserves which banks have to hold at the central bank. The idea is that this should encourage banks to hold minimum _________ relative to their total loans, and so expand loans at low interest rates to _________ in the economy. Sometimes, bonds issued by governments or even companies may also have a negative overall interest rate, as happened for example during the Covid pandemic. This situation however is very rare, and banks are unlikely to charge ____________ for holding money in accounts, because clients may then withdraw money and hold cash.

4/ Use the following words to fill in the blanks: *asset, slumps, permissive, effects*.
It is generally agreed that unconventional monetary policy prevented the GFC and the Covid lockdowns from turning into massive permanent ___________ in economic activity, as happened in the 1930s when the Wall Street Crash of 1929 was followed by the Great Depression. However, QE in particular has also had some negative side___________, leading to substantial price bubbles, which favour wealthy investors. Moreover, the extremely _____________ monetary policy during the Covid pandemic has also been one cause of the strong rise in inflation in the developed world, since spring 2021.

5/ Match the following questions/observations and answers/consequences

Question/observation	Answer/consequences
1/ How does quantitative easing operate?	a/ aggravating asset price bubbles
2/ What is usually the primary objective of central banks.	b/ strengthening transparency and credibility so that expectations may adjust as quickly as possible.
3/ Forward guidance was a further development in central banks' attempts to communicate effectively with markets agents, aimed at…	c/ by buying bonds from banks and other investors, the central bank helps push up bond prices and so brings down interest rates.
4/ QE contributed to…	d/ limiting consumer price inflation.
5/ But it had negative side effects in	e/ preventing economic breakdown after the GFC and the pandemic lockdowns.

1/ tools, operations, easing, supply, liquidity: 2/ agents', based, target, expansionary: 3/ negative, reserves, borrowers, customers: 4/ slumps, effects, asset, permissive. 5/ 1 c; 2 d; 3 b; 4 e; 5 a.