Central banking game

Steps:

1. Make a group of 2-3. You are the executive board of the central bank of your country. You have the following mandate: price stability and full employment.
2. Start with the first scenario and discuss with each other which policy option from the provided list would be best.
3. After 5 min, go to the next scenario and again discuss the best policy option. Repeat this until the time is up.

Policy options:

- Short-term interest rate through the deposit facility:
  Large increase, small increase, no change, small decrease, large decrease (potentially below zero)
- Quantitative easing through the buying or selling bonds:
  Large scale buying, small scale buying, do nothing, small scale selling, large scale selling
- Emergency liquidity assistance through lending to banks: Provide no liquidity assistance, limited liquidity assistance, large scale liquidity assistance

Scenario 1:

In the aftermath of a financial crisis, the economy has been slow to recover. Despite the initial reduction in the interest rate, unemployment has remained high and GDP growth and inflation low. During the last meeting three months ago, the board of the central bank decided to decrease the interest rate target from 1% to 0.5%.

	3 months ago	Now
Inflation rate	1%	1%
Unemployment rate	7%	6%
GDP growth rate	2%	2%

Scenario 2:

A global investment bank is at risk of defaulting as it is unable to repay its repurchase agreements (repos). The bank is a leading player in the global mortgage-backed securities market, wealth management, and financial clearing services.

Scenario 3:

In response to increased inflation, the board of the central bank has increased its interest rate target over the year. Last meeting three months ago, it was moved from 4% to 5%. Since then, inflation has come down, but unemployment is rising and GDP growth declining.

	3 months ago	Now
Inflation rate	8%	4%
Unemployment rate	4%	6%
GDP growth rate	3%	2%

Scenario 4:

A regional commercial bank is facing large-scale write-downs on illiquid assets. The bank has strong local roots and is particularly active in the food and agribusiness. A decline in commodity prices is creating concerns over the growth prospects of the bank.

Scenario 5:

A geopolitical conflict has escalated causing major disruptions in supply chains, which has led to rapid increase in prices. So far, unemployment has remained stable while the GDP growth rate has declined. During the last meeting of the board, the decision was taken to keep the interest rate target at 2%.

	3 months ago	Now
Inflation rate	1%	8%
Unemployment rate	4%	4%
GDP growth rate	4%	3%