Teacher Answer Key

Case Study

1. Purchasing long-term securities increased demand for bonds, lowering their yields and reducing borrowing costs.

2. Forward guidance shaped market expectations, reinforcing low-rate commitments and enhancing QE's impact.

Multiple Choice

1. A

2. D

3. D

Matching

1-D, 2-C, 3-B, 4-E, 5-A

Fill-in-the-Blank

1) rate, 2) Quantitative, 3) investment (or: spending)

Short Answer (Sample Responses)

Q1: At zero, rates cannot be cut further, limiting policy scope and requiring alternative tools.

Q2: QE targets long-term assets at large scale, not just short-term Treasuries, to compress longer yields.

Q3: Pursuing low inflation might slow job growth, while focusing on employment may risk higher inflation.