Money

VOCABULARY PRACTICE

ADVANCED | C1

Name: _____ **Date:** _____

1 Match each advanced monetary or financial concept with its meaning.

1 monetary tightening	____	a danger that problems spread across the financial system
2 quantitative easing	____	b policy actions addressing risks across the financial system
3 real interest rate	____	c borrower or counterparty failing to meet obligations
4 credit risk	____	d broader access to useful and affordable financial services
5 systemic risk	____	e interest rate adjusted for inflation
6 moral hazard	____	f exploiting differences or gaps between regulatory regimes
7 adverse selection	____	g central-bank asset purchases intended to support liquidity and demand
8 regulatory arbitrage	____	h riskier participants being more likely to seek a transaction
9 financial inclusion	____	i behaviour becoming riskier because another party bears losses
10 macroprudential policy	____	j policy making borrowing conditions less expansionary

2 Complete the monetary-policy collocations.

credit | inclusion | inflation | liquidity | policy | rate | risk | stability

1 anchor _____ expectations

2 raise the policy _____

3 tighten monetary _____

4 assess systemic _____

5 manage _____ risk

6 provide market _____

7 promote financial _____

8 safeguard financial _____

3 Choose the concept that best captures the distinction.

1 A central bank raises rates to slow demand: *monetary tightening / quantitative easing*.

2 Asset purchases expand financial conditions: *quantitative easing / inclusion*.

3 Nominal interest minus inflation: *real interest rate / policy rate*.

4 A protected bank takes greater risks: *moral hazard / adverse selection*.

5 High-risk borrowers seek insurance disproportionately: *adverse selection / credit risk*.

6 Firms exploit gaps between rules: *regulatory arbitrage / systemic risk*.

Money

4 Complete the financial-stability review with terms from the box.

adverse selection | credit risk | financial inclusion | macroprudential policy | monetary tightening | moral hazard | quantitative easing | real interest rate | regulatory arbitrage | systemic risk

The review separates price-stability tools from **1** _____. Following prolonged **2** _____, asset prices rose and leverage increased. Later **3** _____ lifted borrowing costs, while the **4** _____ depended on inflation. Supervisors assessed **5** _____ at individual lenders and **6** _____ across the network. Guarantees were designed to limit **7** _____; disclosure standards reduced **8** _____. Coordinated rules constrained **9** _____ without undermining **10** _____.

5 Read the text and answer the questions concisely.

Responding to a credit boom
Household borrowing rose rapidly while property prices climbed. Consumer inflation remained moderate, so the central bank did not rely only on its policy rate. Regulators introduced loan-to-value limits and stress tests, requiring banks to hold buffers that increased with risky lending. They monitored whether credit shifted to less regulated institutions and published distributional analysis because tighter rules could exclude first-time buyers. The measures were reviewed as new data emerged.

1 What two trends signalled a credit boom? _____

2 Why was the policy rate not the only tool? _____

3 Name two measures introduced. _____

4 When did banks need larger buffers? _____

5 What form of regulatory arbitrage was monitored? _____

6 Why was distributional analysis published? _____

6 Paraphrase using the expression in capitals.

1 Inflation reduced the effective return on saving. **REAL** ___

2 Risk could spread across the whole financial network. **SYSTEMIC** ___

3 Protection encouraged the bank to take more risk. **MORAL** ___

4 Firms shifted activity to exploit weaker rules. **ARBITRAGE** ___

OVER TO YOU

Write a **160-190 word** policy proposal responding to a financial imbalance. Address inflation, credit, systemic risk, incentives, inclusion, regulatory leakage, monitoring and review.

[ ] Use at least ten target terms or collocations. [ ] Match each tool to a risk. [ ] Address distributional effects.

ANSWER KEY

1 Advanced monetary and financial concepts

1 **j** 2 **g** 3 **e** 4 **c** 5 **a** 6 **i** 7 **h** 8 **f** 9 **d** 10 **b**

2 Monetary-policy collocations

1 **inflation** 2 **rate** 3 **policy** 4 **risk** 5 **credit** 6 **liquidity** 7 **inclusion** 8 **stability**

3 Conceptual distinctions

1 **monetary tightening** 2 **quantitative easing** 3 **real interest rate**
4 **moral hazard** 5 **adverse selection** 6 **regulatory arbitrage**

4 Financial-stability review

1 **macroprudential policy** 2 **quantitative easing** 3 **monetary tightening** 4 **real interest rate** 5 **credit risk**
6 **systemic risk** 7 **moral hazard** 8 **adverse selection** 9 **regulatory arbitrage** 10 **financial inclusion**

5 Reading - suggested answers

1 Borrowing and property prices rose. 2 Consumer inflation was moderate. 3 Loan-to-value limits, stress tests or buffers.
4 With risky lending. 5 Credit shifting to less regulated institutions. 6 Rules could exclude first-time buyers.

6 Paraphrasing - possible answers

1 The **real interest rate** fell. 2 There was **systemic risk**. 3 Protection created **moral hazard**. 4 This was regulatory **arbitrage**.

Over to you: Answers will vary. Check policy coherence, incentive effects, inclusion, leakage and adaptive review.