The Fed Challenge, Fall 2021

The class will participate as a group in the College Fed Challenge. The rules are below:

Presentation Format: Each team (composed of three to five students) has a maximum of 15 minutes to make an oral presentation that includes:

An analysis of current economic conditions (as of the day of the competition); these conditions may include broad macroeconomic conditions as well as conditions experienced in different geographic areas, in urban/rural areas, or among different demographic and socioeconomic groups (e.g., racial and ethnic groups, age groups), borrowers and savers, etc.

A forecast of near-term economic and financial conditions relevant to the formulation of monetary policy.

A discussion of significant risks to the economy that should receive special attention in formulating monetary policy; these risks may include the possible effects (positive or negative) of monetary policies on different segments of the population.

A monetary policy recommendation, encompassing both traditional tools and newer approaches as warranted; presenters should give supporting reasons for their recommendation.

The most common presentation format is a simulated mock FOMC meeting, but other formats are allowed provided they cover all the requirements above. Following the presentation, the team faces either 10 or 15 minutes (TBD) of questions from a panel of judges. Judges score each team based on:

Knowledge of the Fed, state of the economy, and monetary policy; Response to judges questions Presentation quality and clarity Research and analysis Teamwork and cooperation.

Five students will be selected to represent the class to the Boston Fed. I will send out a survey in a few weeks to gauge interest. Note that the date of the competition is Friday, October 15, the first day of Fall Break. Were the team to advance, it would compete on October 17.

Although only five students may present in the final stage, the entire class will participate. This will be done by dividing the class into four teams, each responsible for a part of the competition. Each group shall make its materials available to the final group of students representing the class.

I will survey students on their preferences over the four groups. The groups are as follows:

Group 1: September 16: Current Economic Conditions.

The group should provide an analysis of current economic and financial conditions. A natural starting point may be the Fed's dual mandate of price (2% inflation) stability and full employment. Are high rates of inflation transitory or likely to last? Has the Fed achieved an average inflation rate of 2% over some window? Is the labor market back to full employment, or is there still a ways to go. How does this latter question vary across different socioeconomic groups?

Other components of the real economy are not directly part of the Fed's dual mandate. These still matter, however, because they can impact inflation or employment. How is the strength of the dollar affecting the U.S. economy? How important is recent fiscal policy? Financial conditions are likewise relevant. Do firms enjoy access to credit? What are relevant trends around interest rates? Should we care about debt levels for households and firms?

Finally, don't hesitate to include other variables not discussed here?

Group 2: September 23: Economic Forecasts and Discussions of Risks.

Four times a year, the Fed issues a Summary of Economic Projections that forecast upcoming GDP growth, unemployment, inflation, and interest rates. How should the Fed revise these projections compared to their September baseline? Or do you think that those forecasts were always off the mark?

How could economic uncertainty affect these projections. What would happen were the covid-19 situation to deteriorate? Is there a risk of a financial crisis and how would this affect the real economy? What would the consequences be of being wrong about whether inflation is transitory? Discuss other relevant risks not listed here.

Group 3: September 30: Asset Purchases and Other Non-Conventional Monetary Policy Measures.

As of August 2021, the Fed continues to purchase billions of dollars of Treasury Bonds and mortgage backed securities each month. Have these purchases been effective at helping the Fed achieve its dual mandate throughout the pandemic? Have they become more or less effective? How should the Fed adjust its asset purchase strategy? Should it start to shrink its balance sheet down the road?

What other policies, excluding managing the Federal Funds Rate, are worth discussing? Might the Fed resume requiring that banks hold required reserves? Should they reengage in emergency lending?

Group 7: October 7: What to Say About Interest Rates?

The Federal Funds rate remains the Fed's primary policy tool. When, or under what conditions, should the Fed begin the process of raising it above its effective lower bound? How exactly should the Fed communicate potential changes to the Fed Funds Rate? Should they be explicitly connected to inflation or employment data (forward guidance)?

How high should the Fed expect to raise the Fed Funds Rate during the upcoming tightening cycle? What factors could affect this level?

Grading: Each student receives an individual grade on the Fed Challenge. This starts with the overall performance of your group. It is then adjusted based on both individual performance during the presentation, as well as by anonymously surveying the other members of each student's group. Participation in the final group presenting to the Boston Fed may then improve a student's grade.