

ECO 216, Fall 2017, Required Homework Assignment #1
Due by 9:30 AM on Tuesday, September 19

The purpose of this assignment is to get all students up to speed on some of the contemporary issues facing the Federal Reserve. This is important background for the Fed Challenge aspect of the course.

Instructions: Answer all questions. There is no required length for #1-6, but one or two concise paragraphs per question is a good rule of thumb. Some questions may require you to find sources. Cite them appropriately. Independently finding good sources is an element of this assignment's grading.

1. What is the Federal Funds Rate and what is the Federal Open Market Committee's (FOMC's) Federal Funds Rate target? [Note: I am looking for definitions and not numerical values]
2. By law, what must the FOMC do when setting interest rates?
3. On September 19-20, 2016, the Federal Open Market Committee (FOMC) will meet to set interest rate policy. There is a possibility of them raising their target interest rate by 0.25%. Based on your prior macroeconomic classes, explain how such a change might affect unemployment and inflation.
4. Since December 2015, the FOMC has been "normalizing" the Federal Funds rate which had been near zero between 2009-2015. What is meant by "normalizing" and why has the FOMC chosen to undertake this process?
5. Neel Kashkari, President of the Minneapolis Federal Reserve, is the only FOMC member to have recently voted against interest rate increases. What is his reasoning for dissenting?
6. What is the difference between core inflation and overall inflation? And why do most Central Banks focus on the former when conducting monetary policy?
7. Write a 1-2 page memo, as if you are a staff economist at the Federal Reserve, advising the FOMC on what it should do regarding interest rates at its September meeting. You may want to think about the following:
 - a. what are the data on inflation, unemployment, etc. telling us?
 - b. how will higher or lower interest rates affect households and firms?
 - c. if the FOMC raises interest rates when it shouldn't, what are the likely costs?

d. if the FOMC does not raise interest rates when it should, what are the likely costs?

The FOMC posts a statement, along with minutes, after each meeting at:

<https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm>

You may find past statements to be helpful.