

## Economics 216, Fall 2020

Bates College

### Homework Assignment #1

This assignment asks you to consider a significant change in how the Federal Reserve conducts monetary policy, announced on August 27, 2020. You are encouraged to research the questions on your own, but the following materials should get you started:

- i. This [article on the Taylor Rule](#) from former Fed Chair Ben Bernanke describes how the Fed thought of monetary policy from the mid-1980s until the policy change.
- ii. Here is the [official statement](#) from the Federal Reserve announcing the new policy.
- iii. Here is Fed Chair Jerome Powell's [presentation](#) describing the new policy.

To complete this assignment, answer the following questions by the end of the day on Wednesday, September 9. A hard copy is preferred, but you may also submit a pdf via email if necessary. There are no set word limits, but I urge you to target one to three concisely written paragraphs per question. Feel free to incorporate data if you feel it will help your answers. As always, provide proper citations when you reference others' work.

1. Describe the major changes to monetary policy contained in the Fed's announcement.
2. What are the tradeoffs associated with switching to the new policy? Why do you think the Fed decided that the benefits of the new policy outweigh the costs?
3. How would monetary policy have been different between 2015-2018 had the Fed used the newly announced policy?
4. The Fed's announcement did not detail exactly how the policy will be implemented. Describe how the Fed should use actual data on inflation, expected inflation, and unemployment to decide when to eventually start raising interest rates.

For citations, I encourage you to use parenthetical notation (*e.g.* Smith (2020) shows that all New England Patriots are shallow, despicable people). You should then provide a complete reference in either footnotes or a reference list including author, date, title, and outlet for each reference. You are welcome to use any respected style, but [here](#) is a link to the Chicago style which is used by the American Economics Association.