

Econ 216, Fall 2021

HW #1

This assignment is designed to get students familiar with the current issues facing the Federal Reserve as it heads into the September FOMC meeting. There are no length requirements, but one or two concise paragraphs per question should suffice.

It is the night of September 14. As you leave the Commons after a delicious meal of Cocoa Puffs and Gatorade, a lone figure approaches you. To your surprise, it is Fed Chairman Jerome Powell. He is crying and you suspect that he has been drinking. “Help me, we have an FOMC meeting tomorrow and I have no idea what to do.”

Help Jay out by answering the following questions. The assignment is due at the start of class on September 14. You will likely need to do a little research. As always provide references. Here are some [sample references](#) using the Chicago Manual of Style, although you are free to use other reputable style.

1. There is speculation that the Fed might announce that it is “tapering” its asset purchases. What does this mean and what are the trade-offs involved with the Fed’s decision whether to do so?
2. In June, the Fed forecasted that U.S. unemployment (U-3) would fall to 4.5% by the end of the year and that 2021 GDP growth would come in at 6.5%. It will update these forecasts at the September meeting. What factors might justify changing these forecasts and why?
3. What has happened with inflation data since the Fed’s last meeting in July? Why does it matter if these inflation readings have been caused by “transitory” factors?
4. Do you expect the Fed to change its target Federal Funds rate at the September meeting? Explain.