

ECO 216, Fall 2017, Required Homework Assignment #2
Due by 9:30 AM on Tuesday, September 26

This is a group assignment, to be completed collectively by each of the Fed Challenge teams. You need only submit one copy.

For this topic, you are to research and report on several aspects of the Fed's balance sheet. I am flexible on the form of the document that you submit, but a set of approximately one-page memos related to each of the following issues seems reasonable.

As a group address each of the following issues?

1. Describe the process by which the Fed increased its balance sheet from less than \$1 trillion in 2007 to \$4.5 trillion today. What assets were purchased in what amounts, and as part of which policy initiatives? How has the composition of the Fed's balance sheet changed?
2. What is the economic rationale behind the Fed's purchases of longer-term Treasuries instead of short-term Treasuries. Why might this have improved macroeconomic conditions in the aftermath of the Financial Crisis? Why might it have not helped and what are the potential downsides of this policy.
3. What is the economic rationale behind the Fed's purchases of mortgage backed securities. Why might this have improved macroeconomic conditions in the aftermath of the Financial Crisis? Why might it have not helped and what are the potential downsides of this policy.
4. On Wednesday, September 20, the FOMC will announce whether it will begin the process of reducing its balance sheet. It has previously described how this process will work in materials provided after past meetings. Describe this process.
5. Do you think the FOMC made the right decision on September 20 regarding the balance sheet? If so, compare the costs and benefits of alternate policies. If not, explain why another choice would have been better.