

Econ 216, Fall 2021

HW #3

This assignment is designed to make students aware of some additional challenges facing the Federal Reserve. It is due on Tuesday, October 12. Students competing in Boston (virtually are exempt from this assignment.

There is no fixed length per question, but I suggest targeting one or two concise paragraphs.

This [article from the St. Louis Fed](#) discusses the “flattening of the Phillips Curve.”

1. Using a graph, illustrate the flattening of the Phillips Curve.
2. How would you explain the flattening of the Phillips Curve to a policy maker with no background in Economics?
3. How does a flatter Phillips Curve affect how the Fed might respond to the current combination of unemployment and inflation? How would your answer change if unemployment were at the very low levels of 2019?

This [piece from Brookings](#) discusses racial unemployment gaps.

4. What is the current state of U.S. unemployment discrepancies by race and how do they compare with those from before the pandemic?
5. What is the usual relationship between these gaps and the business cycle?
6. How could a larger than usual gaps affect the Fed’s thinking of when to start raising interest rates?

Read this [article from the Dallas Fed](#) on average inflation targeting.

7. What is the Fed’s rationale for adopting average inflation targeting?

8. How does this policy change affect the Fed's thinking about the current increase in inflation which has caused almost all measures to rise above 2%.

9. In addition to average inflation targeting, the Fed also announced that it will no longer respond to unemployment falling below its natural rate. How might this affect monetary policy in the future and why did the Fed adopt this policy change?

As always provide references. Here are some [sample references](#) using the Chicago Manual of Style, although you are free to use other reputable style.