Teh September FOMC Meeting

1. We began by discussing the tragic lack of availability of Count Chocula.

2. We defined the Federal Reserve as the Central Ban of the United Sates. Its roles include 1) acting as a lender of last resort, 2) conducting banking and financial regulation, and 3) conducting monetary policy through the Federal Open Market Committee (FOMC). The remaining discussion focused on the third component noting that the Fed decided to raise interest rates on Wednesday, September 16.

3. The FOMC targets a little used overnight rate called teh Federal Funds rate, a rate at which banks lend to each other. It hopes that by raising this interest rate, other rates that matter (*e.g* mortgage rates, car loan rates, small business loans, etc) will also rise.

4. We considered the market for housing. Because most home purchases are financed using a mortgage, higher interest rates increase the monthly payment associated with any given home price. They therefore reduce demand. As usual, this lowers both price and quantity. The former is disinflationary. The latter tends to reduce employment- the example of construction workers was cited in regards to housing. Higher interest rates affect other markets in similar ways.

5. Congress has given the Fed dual mandate. One side is price stability, which the Fed interprets as 2% inflation. The other is maximum employment. While this is harder to quantify,it roughly corresponds to 4% unemployment.

6. The Fed's decision to raise rates was driven by cocnern that inflation is above 2%. We looked at the Consumer Price Index, a popular price index. It shows inflation up 3.5% over the past year. We discussed core-inflation, which excludes food and energy. It is up 2.4% over the past year with a clear downward trend.

7. We considered two pieces of evidence on the labor market. One was teh 4.1% unemployment rate, which is good. The other was slow job growth over the past two years. The Fed has blamed the latter on slower population growth due to reduced immigration and lower birthrates beginning

around 2008. If correct, then the economy does not need many new jobs to keep unemployment stable.