

September FOMC Meeting: Key

1. Congress has given the FOMC a dual mandate: to stabilize prices and achieve maximum employment. The Fed's decision to raise interest rates in September was based on the former. Many measures of inflation remain above 2% and the FOMC hopes that higher rates will bring these down. This does entail some risk that unemployment will rise. The Fed is thus facing a trade-off where lower inflation requires risking higher unemployment.
2. Most cars are purchased on credit. Lower interest rates mean that, for a given price, the monthly payment falls. This thus increases demand leading to higher prices and quantity.
3. Core inflation remove food and energy. economists prefer core not because food and energy are unimportant. Instead, it is because they are volatile and largely out of the control of any country's monetary policy.
4. False, in the Fed's opinion. The Fed has defined price stability as 2% inflation. There are a few reasons for doing so. For example, it reduces the risk of negative inflation, known as deflation.. This is worse for an economy than inflation.
5. Central Banks were originally created to act as lenders of last resort. This means that prevent unnecessary business failures by making loans when the private sector is unable to do so.
6. This scenario reflects a difficult trade-off that the fed might face. High inflation calls for higher rates. High unemployment, however, calls for lower rate. The correct decision is not obvious and we would expect disagreement within the FOMC on what to do.