Federal Reserve Bank of Chicago Academic

Advisory Council Meeting Preliminary Agenda

May 11, 2018
10:00 a.m. – 2:00 p.m.

President Evans's Conference Room, 2nd Floor

9:45 – 10:00 a.m.	**Coffee**
10:00 – 11:15 a.m.	**Jan Eberly –** ***Intangibles, Investment, and Efficiency***
11:15 – 12:00 p.m.	**Ethan Harris –** ***Inflation Developments***

Directors' Dining Room, 3rd Floor

12:10 – 2:00 p.m.	**Lunch and Policy Discussion**

Members of the Panel

Lewis Alexander	Nomura
Alan Auerbach	University of California, Berkeley
Christian Broda	Duquesne Capital
Jan Eberly	Northwestern University
Marty Eichenbaum	Northwestern University
Robert Gordon	Northwestern University
Ethan Harris	Bank of America Merrill Lynch
Anil Kashyap	University of Chicago
Randy Kroszner	University of Chicago
Matthew Shapiro	University of Michigan
Rob Shimer	University of Chicago
Linda Tesar	University of Michigan

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Charles Evans
Spencer Krane
Dan Aaronson
Jonas Fisher
Hesna Genay
Francois Gourio
Richard Rosen
Francois Velde
Jing Zhang

Guest Coauthor

Nicolas Crouzet	Northwestern University

Questions to Help Guide the Lunchtime Policy Discussion

Note: Questions 1 – 4 are a sequence; #4 is the main question; #1, #2, and #3 are useful background for #4, so thoughts on those would be helpful, too.

1. The central tendency in the FOMC's March Summary of Economic Projections (SEP) for the long-run federal funds rate is 2-3/4 to 3 percent. Subtracting off the 2 percent inflation target leaves an equilibrium real rate, r^*, of ¾ to 1 percent. However, several models (e.g. Laubach-Williams) see the current value of r^*_t as close to zero. Among the reasons cited for $r^*_t < r^*$ are elevated precautionary behavior by households and businesses (perhaps some residual hangover from the great recession), stronger-than-long-run demand for safe U.S. assets by foreign investors, and lingering elevated probabilities of returning to the ZLB . And, surely, there is a lot of uncertainty about r^*_t and r^*.

   Against this backdrop, how accommodative is the current fed funds target of 1-1/2 to 1-3/4 percent? Given the large uncertainty over r^*_t and r^*, what other indicators should we be looking at to gauge the stance of monetary policy?

2. Core PCE inflation was 1.9 percent in March. Labor markets are tight, and many commodity prices have been rising. Fiscal policy is turning stimulative. Yet several measures of inflation expectations (notably TIPS breakevens and household survey measures) fell in 2013-2014 and have not recovered since. So, looking ahead, where do you see the balance of risks around the inflation outlook?

3. Suppose in 2020 we are at the median forecast from the March SEPs, which had growth near potential and the unemployment rate at 3.6 percent, nearly a full percentage point below the median for "long-run normal" rate of unemployment, u^*. Do you think the Fed will be able to engineer a "soft landing" and return to u^* without a recession from this starting point?

4. Given your thoughts about questions 1, 2, and 3, what do you think the strategy for policy should be over the next year? Should the Fed try to put policy in neutral and see how employment and inflation evolve? Should we attempt to keep policy somewhat accommodative to ensure we sustainably achieve our symmetric inflation target? Should we move to a somewhat restrictive stance to avoid too large of an undershooting of u^*?

   The following speech by President Evans gives some of his recent views on the economic outlook and monetary policy.

   https://www.chicagofed.org/publications/speeches/2018/04-20-2018-overheating-and-monetary-policy-how-does-low-inflation-affect-the-policy-narrative

5. There has been talk in a variety of circles about potential alternative monetary policy frameworks central banks may want to consider in light of the increased risks of hitting the zero lower bound in a world of lower equilibrium interest rates. These frameworks include nominal income targeting, price level targeting, and state contingent price level targeting (switching to a price level target if we hit the ZLB). Do you think the Fed should consider adopting one of these alternative frameworks? If so, which one? And how should such an action be communicated to the public?

   The following speech by President Evans provides some of his thinking on this topic.

   https://www.chicagofed.org/publications/speeches/2018/03-09-2018-some-practical-considerations-monetary-policy-frameworks-shadow-open-market-committee