

Federal Reserve Bank of Chicago
Academic Advisory Council Meeting
Agenda

May 17, 2019
10:00 a.m. – 2:00 p.m.

President Evans' Conference Room, 2nd Floor

9:45 – 10:00 a.m. **Coffee**

10:00 – 11:00 a.m. **Randy Kroszner – *Issues Confronting Alternative Monetary Policy Frameworks***

11:00 – 12:00 p.m. **Lewis Alexander (with Christian Broda and Ethan Harris) – *Market Perceptions of Alternative Monetary Policy Frameworks***

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
Robert Gordon	Northwestern University
Ethan Harris	Bank of America Merrill Lynch
Anil Kashyap	University of Chicago
Randy Kroszner	University of Chicago
Rob Shimer	University of Chicago

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Charles Evans
Dan Sullivan
Spencer Krane
Anna Paulson
Sam Schulhofer-Wohl
Dan Aaronson
Gene Amromin
Jonas Fisher
Hesna Genay
Ellen Rissman
Gadi Barlevy

Policy Questions

Background: (see attached slides)

Concerns about growth have lessened since last winter. The labor market remains robust, with the unemployment rate falling to 3.6 percent in April. In contrast, after running near 2 percent most of last year, core PCE inflation moved down in Q1, reaching 1.6 percent (y-to-y) in March. Although some of the drop reflects declines in idiosyncratic components that are likely transitory, some might reflect a more concerning drag from low inflation expectations.

Monetary policy has been on hold since December, with the funds rate in the range of 2-1/4 to 2-1/2 percent, near the bottom of the FOMC's 2.5 to 3.0 percent central tendency for the long-run neutral rate. The FOMC has said it will be patient in determining future adjustments to policy. The median forecast in the March SEP has no change in the funds rate in 2019, (roughly) one increase in 2020, and no moves in 2021.

Discussion questions:

1. Policy goals and near and medium term policy decisions:
 - a. Should the drop in the unemployment rate well below the median SEP estimate of u^* (4.3 percent) on its own elicit a policy tightening? Or should policy wait until there is an obvious pickup in inflationary pressures? If you believe the latter, what kind of signals would you be looking for to determine it was time for a rate hike?
 - b. Even if the unemployment rate remains well below u^* , at what point would low-inflation outcomes concern you enough to loosen policy?
 - c. What kind of forward guidance, if any, would you give accompanying such moves?
2. A number of commentators say that inflation is being held down (over medium and low frequencies) by “structural” developments such as increased competition due to globalization and the internet, slower growth in administered health care prices, etc. What is your view on this issue and how do you think monetary policy ought to respond—e.g. push harder or give up? If the latter, at what point is one led to say “Inflation is always never and everywhere nowhere a monetary phenomenon?”
3. The January FOMC minutes indicated:

“Participants observed that, although the target range for the federal funds rate was the Committee’s primary means of adjusting the stance of policy, the balance sheet normalization process should proceed in a way that supports the achievement of the Federal Reserve’s dual-mandate goals of maximum employment and stable prices.”

Do you see risk of any meaningful conflicts arising between Fed interest rate and balance sheet policy over the next year or two? If so, how should the Fed react? (See the attached slides for a description of balance sheet plans.)