

# **Can the FED Control Inflation and Maintain Full Employment?**

**DATA 608 - Story 2**

Jawaid Hakim

# Dual Mandate

## Federal Reserve Act of 1977

### Stable Prices and Moderate Long-Term Interest Rates

Economic Stability

Target: 2% (FOMC 2022)

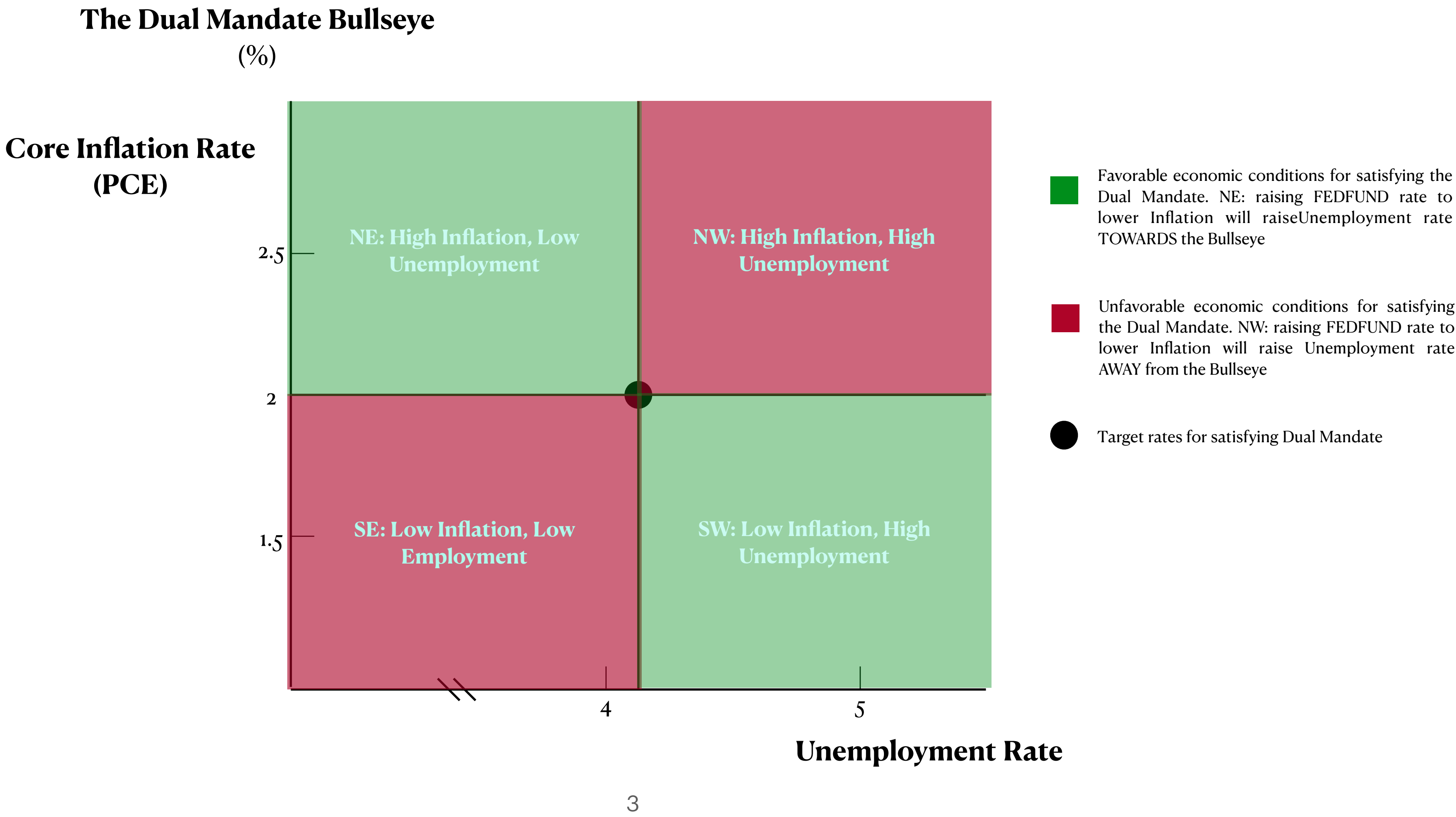
### Maximum Employment

Non-Cyclical Rate of Employment

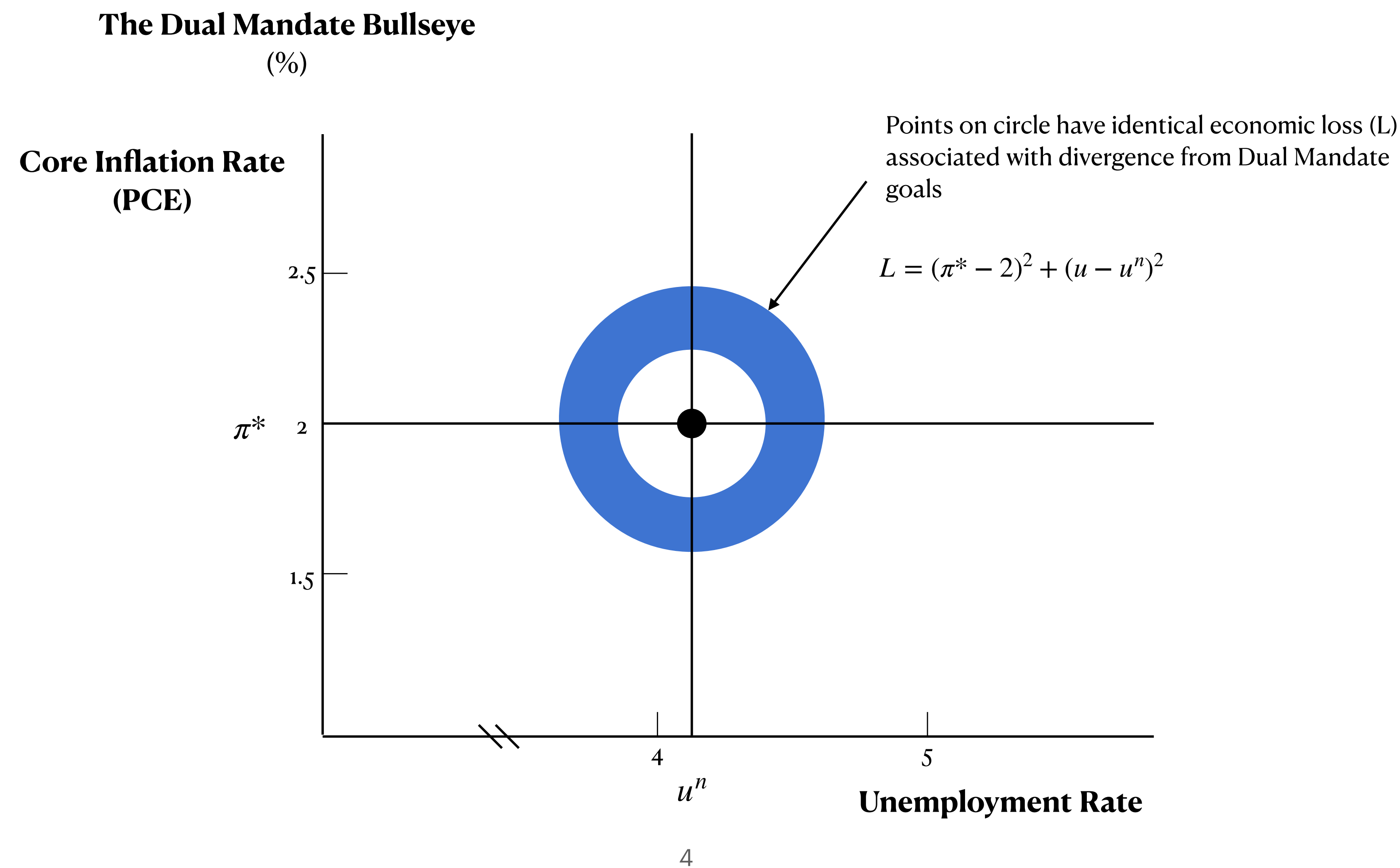
Target: difficult to quantify,

Currently:  $\approx 4.3\%$

# Dual Mandate



# Dual Mandate (Balancing Act)



# Dual Mandate

## Taming Inflation

**Goal: Stable Prices and Moderate Long-Term Interest Rates**

Monetary Policy Tools:

- Reserve Requirements
- Discount Rate
- Open Market Operations

# Dual Mandate

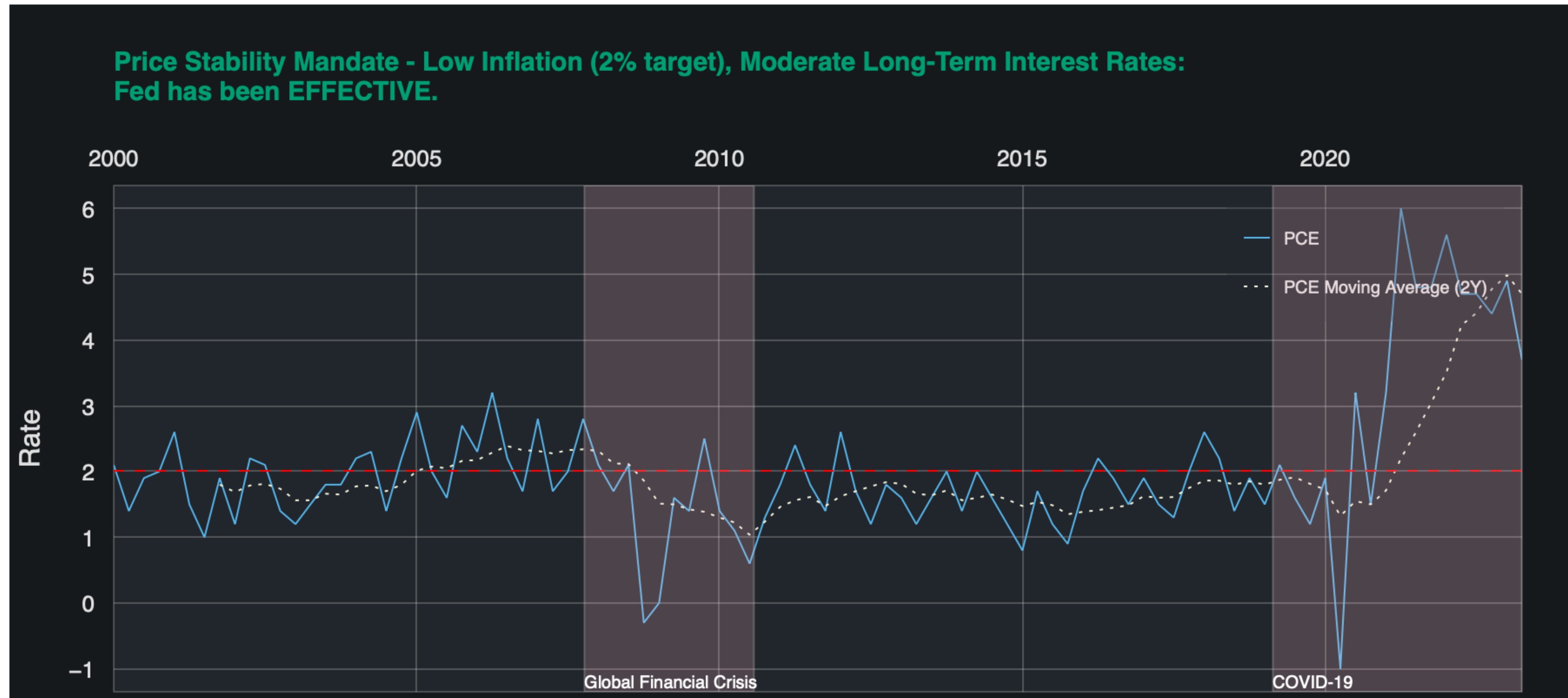
## Monetary Policy Lag

**Monetary policy always comes with a lag**, taking about 18 months for the impact of a single rate increase to fully seep through into spending patterns and prices - *Financial Times* (July 5, 2023)

It's commonly thought that **monetary policy works with “long and variable lags”** ...There was an old literature that made those lags out to be fairly long. There's newer literature that says that they're shorter. The truth is, we don't have a lot of data.... It's highly uncertain – highly uncertain.” – *Jerome Powell, Federal Reserve Chairman* (November 2, 2022)

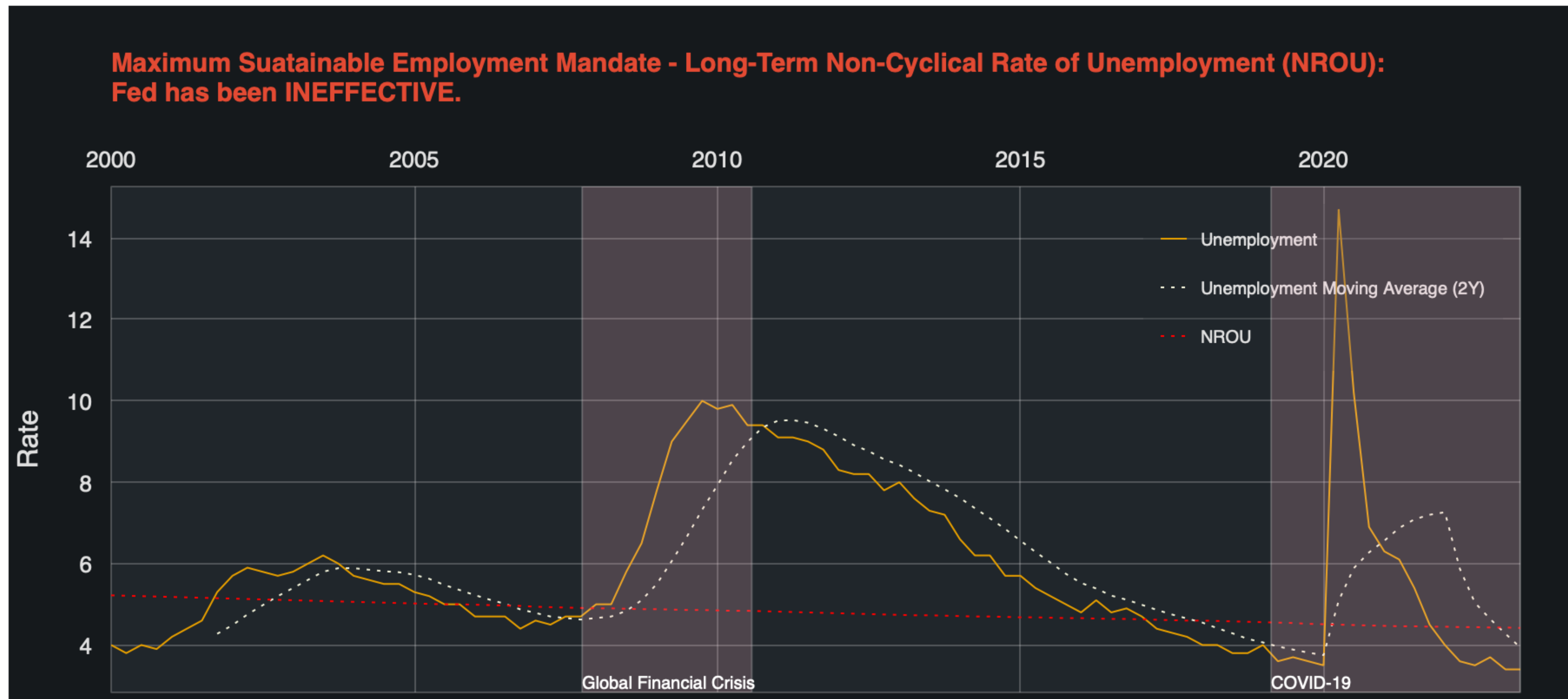
# Dual Mandate Report Card

## Price Stability Mandate



# Dual Mandate Report Card

## Maximum Sustainable Employment Mandate





# Dual Mandate

**Can the FED Control Inflation and Maintain Full Employment?**

**No**

**Unless** - Full Employment, commonly referred to as the non-cyclical rate of unemployment, is defined as a wide (high-low) range of acceptable unemployment.

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