

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

**DATA 608 - Story 2**

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# Dual Mandate - What is it?

**Federal Reserve Act of 1977**

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

Economic Stability

Target: 2% (FOMC 2022)

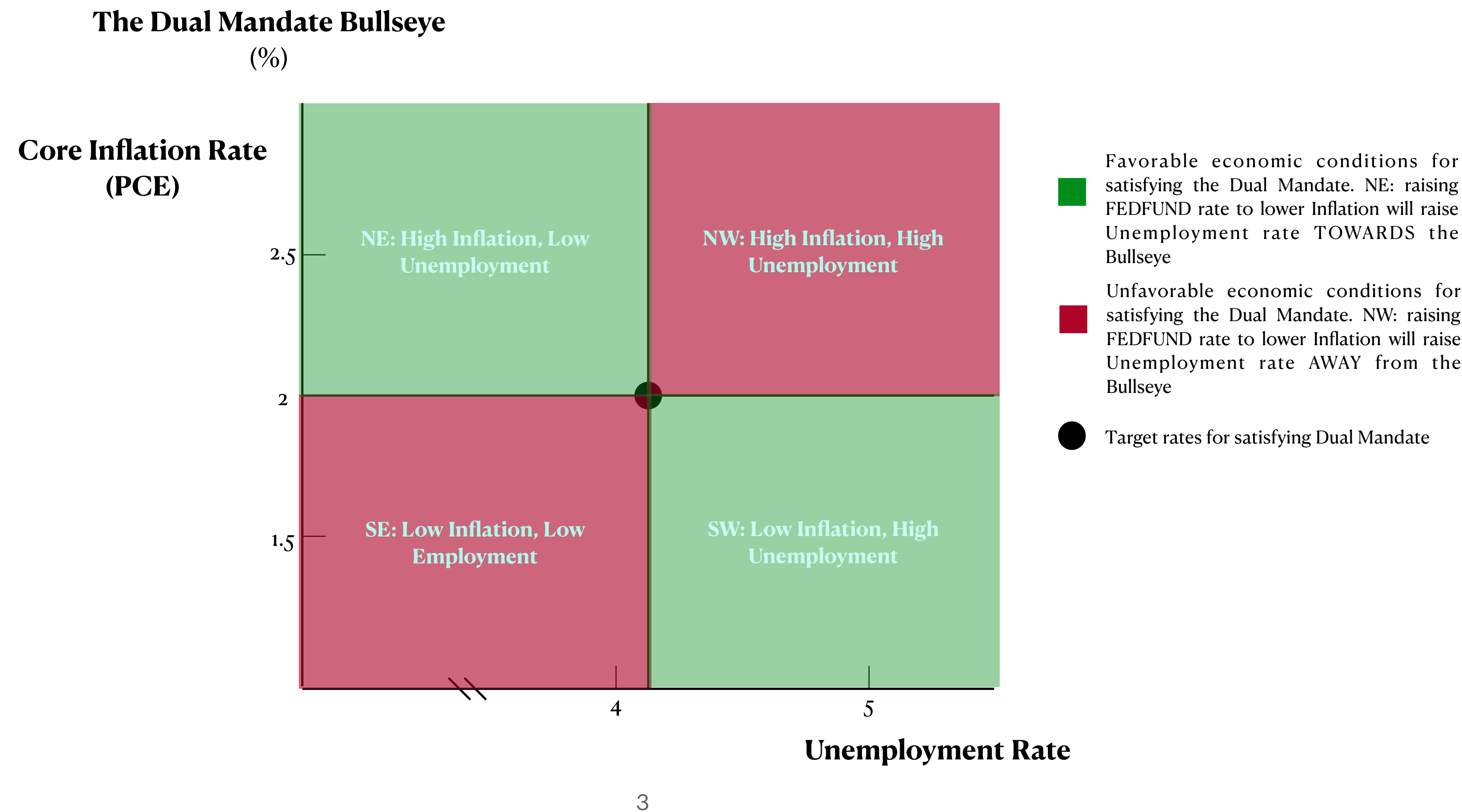
## **Maximum Sustainable Employment**

Non-Cyclical Rate of Employment

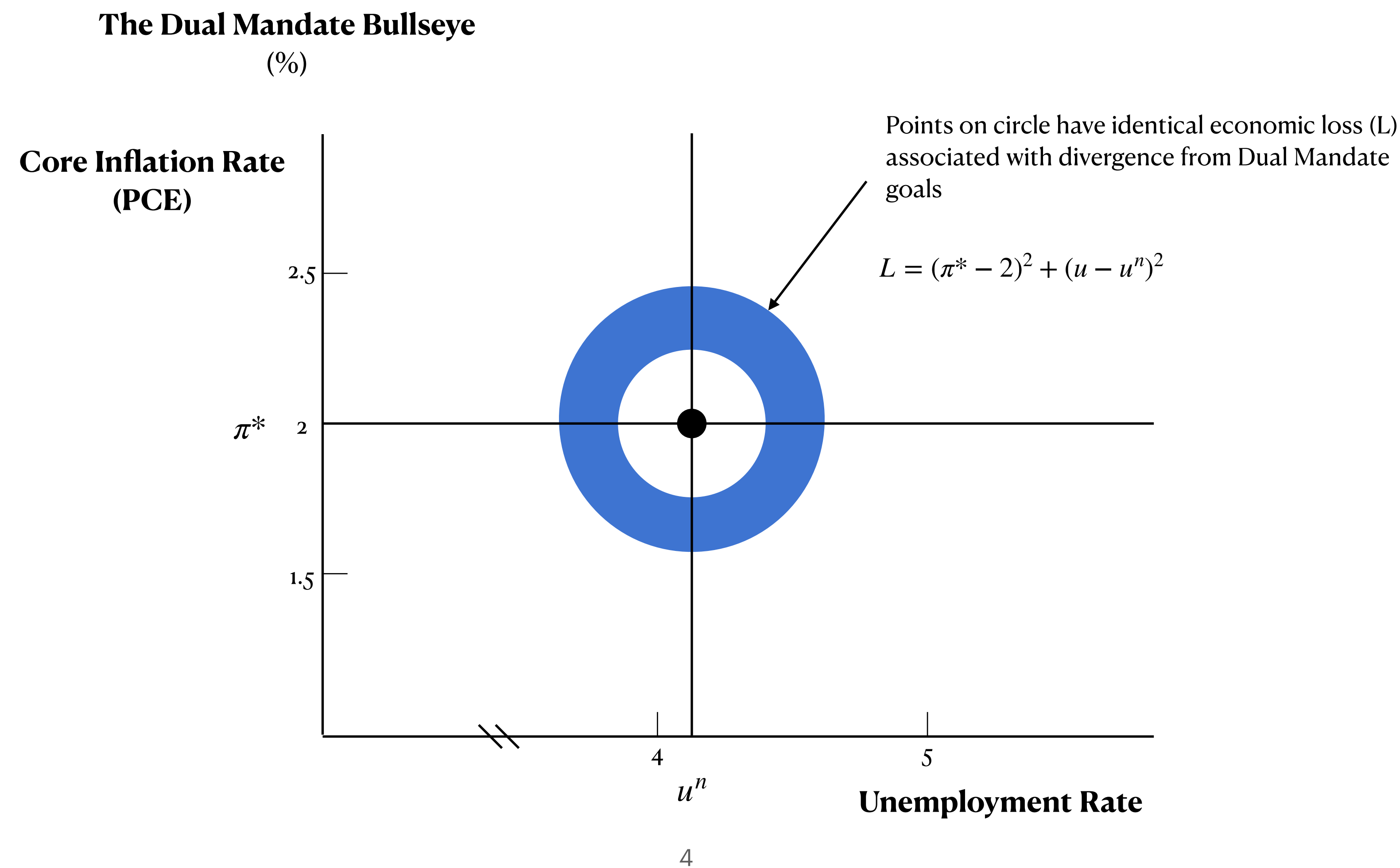
Target: difficult to quantify,

Currently:  $\approx 4.3\%$

# Dual Mandate - Bullseye and Quadrant Dynamics



# Dual Mandate (Balancing Act)



# Dual Mandate

## Monetary Policy Lag

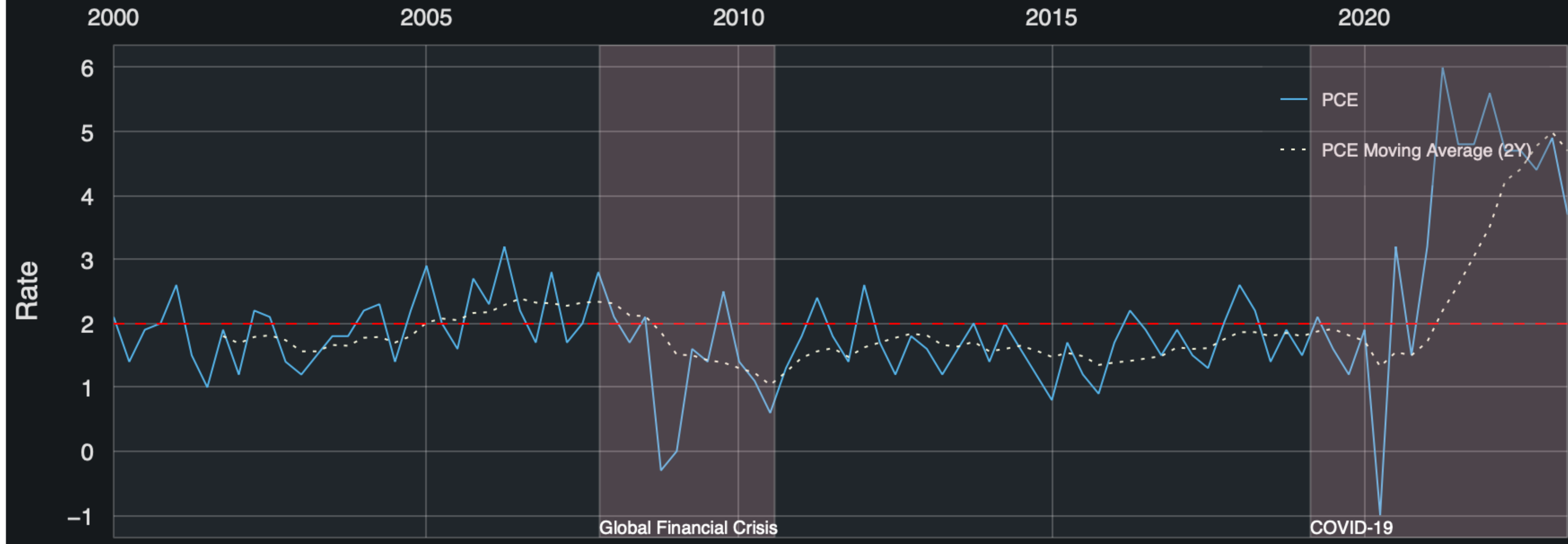
**Monetary policy always comes with a lag**, taking about 18 months for the impact of a single rate increase to fully seep through into spending patterns and prices - *Financial Times* (July 5, 2023)

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

**Price Stability Mandate - Low Inflation (2% target), Moderate Long-Term Interest Rates:  
Fed has been EFFECTIVE, except during Black Swan events like the Global Financial Crisis  
and COVID-19.**



# Dual Mandate Report Card

## Maximum Sustainable Employment Mandate

**Maximum Sustainable Employment Mandate - Long-Term Non-Cyclical Rate of Unemployment (NROU):  
Fed has been INEFFECTIVE, with wide swings in unemployment measured against NROU.**

