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Macro Roundup Article

Headline: Stock and Flow

Article Link: https://fedguy.com/stock-and-flow/

Author(s)	Joseph Wang
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Tweet: Former Fed bond trader Joseph Wang notes that higher interest rates subsidize consumption by increasing private sector interest income from public sector liabilities. He argues, “the current policy stance may not be effective in moving inflation back to 2%.” @FedGuy12

Summary: The economic impact of higher rates is mixed because it also subsidizes consumption by increasing private sector interest income from public sector liabilities. While private sector interest expenditures merely redistribute income among private actors, public sector interest rate expenditures increase the overall spending power of the private sector. If rates are higher for longer, the interest payments will easily exceed $1t next year. The aggressive rate hikes have thus far appeared to have a limited effect on dampening inflation. With the policy rate much closer to the terminal rate than 0% and financial markets stabilizing, the stock effect of monetary policy appears to be waning. If the flow effects are mixed, then the current policy stance may not be effective in moving inflation back to 2%

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Primary Topic: Inflation

Topics: Factoid, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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