Monetary and Fiscal Policy Analysis — December 16, 2008

Anuj Patel, Charles Ancel, and Henry Szklanny (Team Two)

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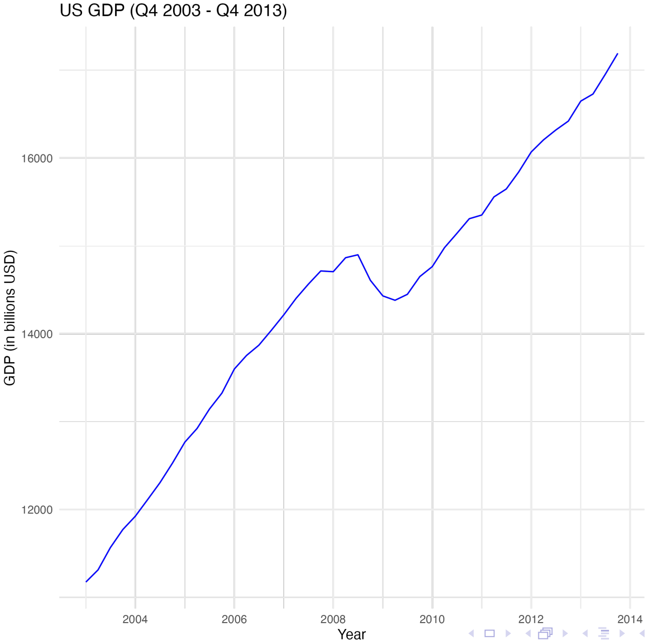
Contextual Information

- FOMC lowered federal funds rate by 50 basis points to 1% due to slowing economic activity.
- National Bureau of Economic Research declared recession on December 1st.
- Declines in retail sales, manufacturing, real estate, and lending.
- Weakened labor markets, decreased price pressures, and further financial market declines.
- Projected 5% GDP fall over the next two quarters.
- Unemployment rising to 8% in 2010.
- PCE inflation around 1% for 2009 and 2010.

Contextual Data — GDP

- GDP from Q4 2003 to Q4 2013.
- Recession period.
- Q4 2008 GDP: approximately 14.608 trillion USD.

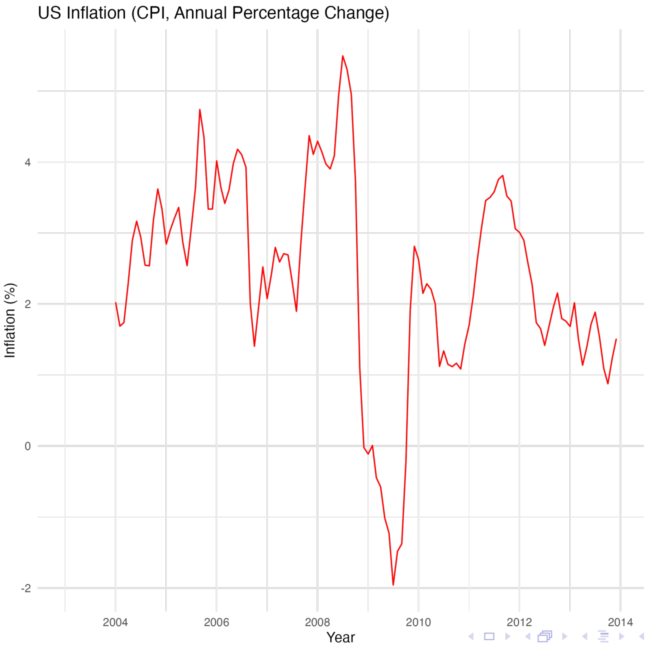
Graph — GDP


US GDP (Q4 2003 - Q4 2013)
GDP (in billions USD)
16000
14000
12000
2004
2006
2008
2010
2012
2014
Year

Contextual Data — Inflation

- Measured by the Consumer Price Index (CPI).
- Annual percentage change in cost of a basket of goods and services.
- Inflation dropped dramatically, became negative in 2009.

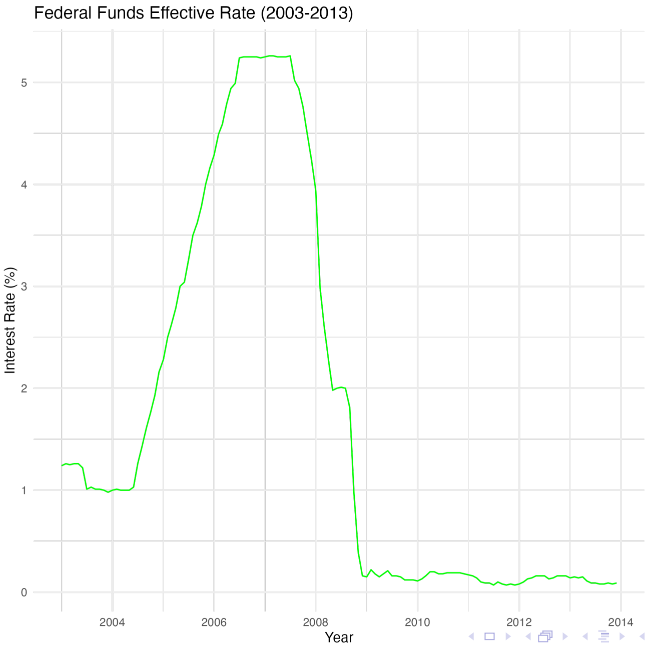
Graph — Inflation



Contextual Data — Interest Rates

- Federal funds effective rate from 2003 to 2013.
- Significant cuts led to extended near-zero rates.
- Aimed to stimulate the economy by making borrowing cheaper.

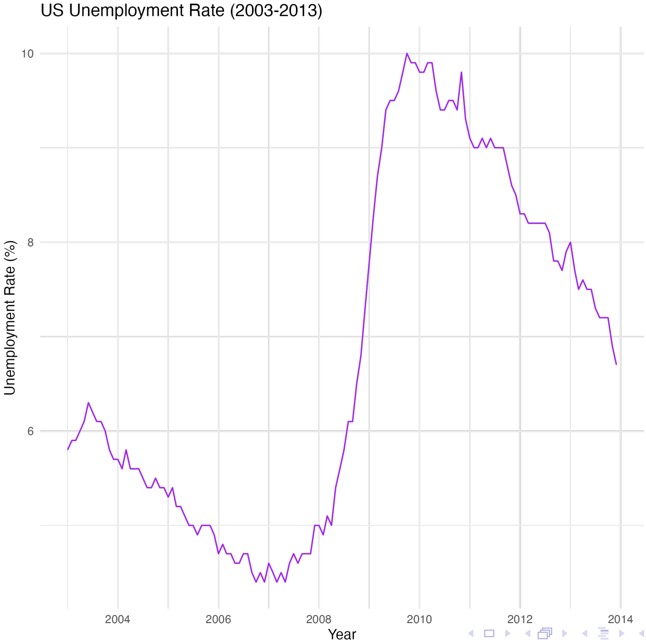
Graph — Interest Rates



Contextual Data — Unemployment Rate

- Unemployment rate from 2003 to 2013.
- Before recession: steady around 5%.
- Peaked at 10% in October 2009.

Graph — Unemployment Rate



Theory and Decision

- Crisis: Housing market crisis of 2008 and 2009.
- Decision: Lower federal funds rate to around $0.5\% \pm 0.25\%$.
- Rationale: Stimulate spending and investment by making borrowing cheaper.
- Aim: Counteract deflationary pressures and support economic recovery.
- Consider: Zero interest rate policy and effective forward guidance.

Statement

The Federal Open Market Committee decided today to lower its target for the federal funds rate by 50 basis points to 0.5 percent. Contributing to this decision has been the continued decline of many economic indicators. In particular, a marked deterioration of labor markets and industrial production have led to a bleak outlook. At the same time, prices have continued to decline, and we now project inflation to be at 1 percent for the next couple of years. In spite of this, the Committee believes that the economy will stabilize in the coming year with the implementation of a new stimulus package. The Fed will continue to closely monitor the economy and reaffirms its promise to ensure economic growth and price stability. If necessary, the Fed is willing to further lower the federal funds rate and maintain a lower interest rate for an extended period to reach this goal.

Comparison with Fed's Decision

- Fed set a target range of $0 - 0.25\%$, more aggressive than our recommended 0.5%.
- Likely aimed for a stronger immediate economic boost.
- Implemented extra policies to support mortgage and housing markets and facilitate credit extension.
- More aggressive approach likely more effective given worsening economic indicators.

Conclusions

- December 2008 recession: Significant declines in GDP and rises in unemployment.
- Our policy: Lower interest rates and provide forward guidance to stimulate economic activity.
- Fed's more aggressive approach likely provided a necessary economic boost.
- Highlights importance of flexibility and responsiveness in monetary policy during crises.
- Future policymakers should consider more aggressive measures in similar situations.

Q&A

- Thank you for your attention.
- This conclues my presentation on the monetary and fiscal policy decisions of December 2008.
- I hope this has provided a clear understanding of the economic context and the rationale behind policy decisions.
- If you have any questions, please feel free to ask.