# Key Research Question:

Mishkin tests the rational expectations hypothesis which suggests that only unanticipated changes in monetary policy should affect real economic activity, while anticipated changes should not, as rational economic agents would have already adjusted their behavior to account for these expected changes.

## Methodology:

* He used quarterly U.S. data from 1954 to 1976
* Constructs measures of anticipated and unanticipated money growth using:
  + Money supply data
  + A forecasting equation to separate anticipated from unanticipated components
* Tests whether these components differently affect real variables like:
  + Real GNP growth
  + Unemployment
  + Real consumption spending

## Key Findings:

* Anticipated monetary policy has no significant effect on real economic variables
* This supports the rational expectations hypothesis:
  + Economic agents appear to adjust their behavior to offset expected monetary changes
* Unanticipated monetary policy does have significant real effects
* Surprise increases in money growth tend to increase output and decrease unemployment
* These effects are temporary but can last several quarters
* The results are robust to:
  + Different specifications of the money growth forecasting equation
  + Various statistical tests
  + Different sample periods

## Policy Implications:

* Systematic monetary policy (which is anticipated) may be ineffective at influencing real economic activity
* Only monetary surprises can affect real variables in the short run