

A large splash of water is captured in mid-air, with numerous droplets suspended around a central column of water. The background is dark, making the white and light blue water stand out. The overall scene is dynamic and energetic.

The Challenges of Monetary Policy

The Goals of Monetary Policy

- Macroeconomic policy consists of
 - monetary policy
 - the Fed's use of its policy instruments to affect the cost and availability of funds in the economy
 - fiscal policy
 - alterations in government spending or taxes proposed and enacted by Congress and the President

The Goals of Monetary Policy

- In conducting monetary policy, the Fed works through the financial system
 - the Fed's primary tools include control of the monetary base, the required reserve ratio and the discount rate
- Monetary policy affects the borrowing, lending, spending, and saving decisions of households, business firms, the government, and the rest of the world

The Goals of Monetary Policy

- The specific goals of monetary policy are to design and implement policies that will achieve
 - sustainable economic growth
 - full employment
 - stable prices
 - a satisfactory external balance

The Goals of Monetary Policy

Long Run

Sustainable Economic Growth
determined by the growth and
productivity of labor and capital

Short Run

**Full
Employment**

Stable Prices

**Satisfactory External
Balance compatible
with full employment
and stable prices**

**Achieving these goals in
the short run helps to
achieve maximum
sustainable economic
growth in the long run**

Economic Growth

- If the nation's standard of living is to rise over time, the productive capacity of the economy must expand
 - growth of the capital stock
 - growth of the labor force
 - a rise in productivity

Economic Growth

- The growth of the capital depends on the amount of investment spending undertaken by firms
 - the change in the capital stock = net investment spending
- The productivity of capital is related to the amount of resources devoted to research and development and on the resulting technological advances

Economic Growth

- The growth of the labor supply flows from the growth of the population and from increases in labor force participation rates
- The productivity of labor is thought to depend on the educational attainment and health of workers, the quantity and quality of capital available, and the competitive environment faced by firms and workers

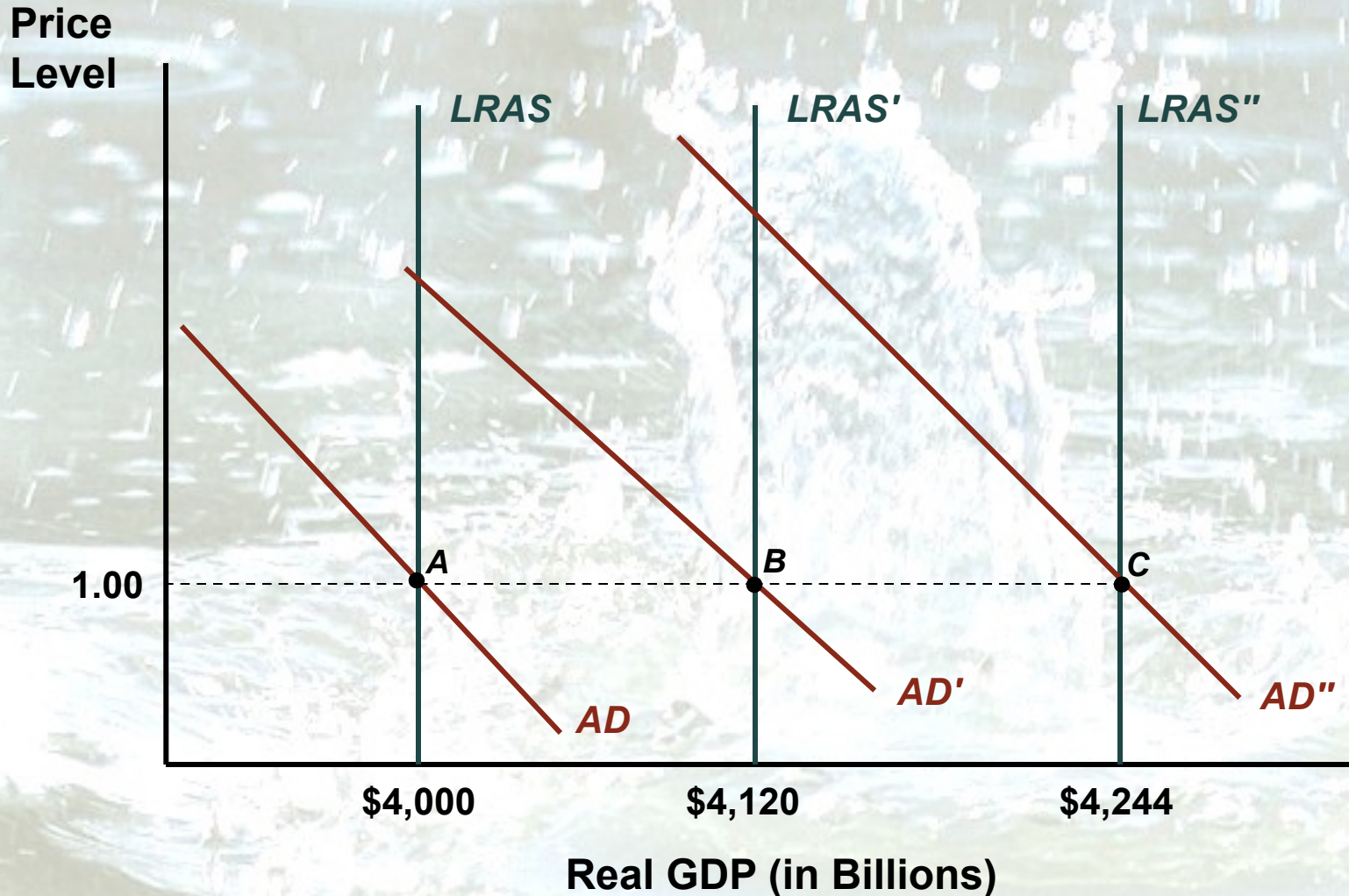
Economic Growth

- In general, a thriving nation's productive capacity grows over time
- Macroeconomic policy influences the pace in a number of ways
 - tax policy can affect a firm's desire to invest or engage in research and development, and can affect a household's decision to work and save
 - interest rates also influence spending and saving decisions

Economic Growth

- A stable environment will also be more conducive to farsighted planning and decision making that enhance an economy's long-run growth potential
 - high rates of capacity utilization and employment
 - output growing at a steady, sustainable rate

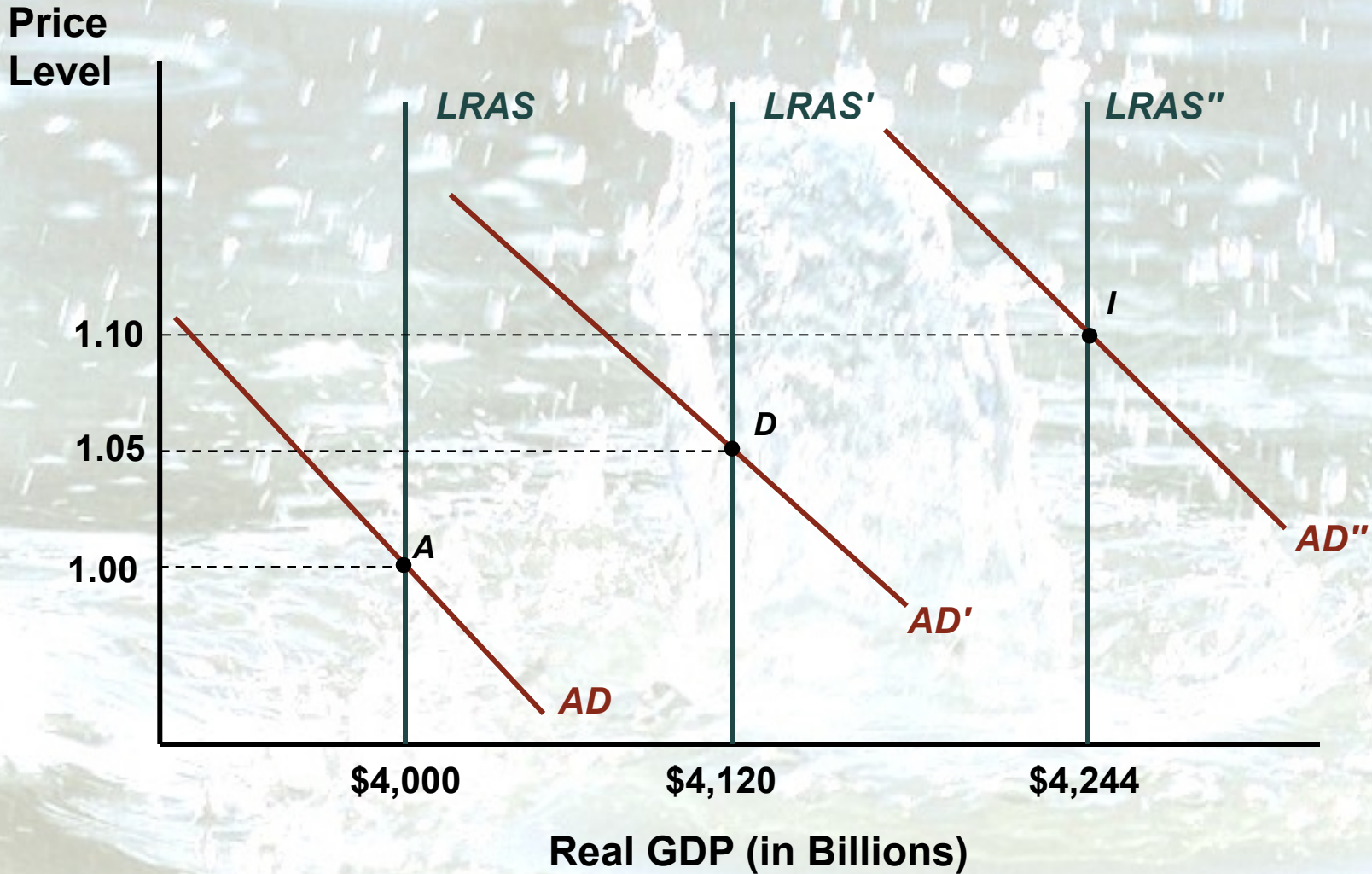
Steady Noninflationary Growth



Economic Growth

- An unstable environment characterized by a series of inflationary booms and deflationary recessions is likely to inhibit economic growth
 - aggregate demand grows faster or slower than aggregate supply

Unstable Growth



Economic Growth

- Short-run stabilization objectives are not separate from the long run goal of economic growth
 - short-run fluctuations around the trend influence the trend itself

Stabilization of Unemployment, Inflation and the External Balance

- In order for our economic to reach its full potential, all individuals must have the opportunity to become productive, employed members of society
 - output that could have been produced last year by those unemployed is lost forever

Stabilization of Unemployment, Inflation and the External Balance

- To understand why policymakers worry about inflation, it is useful to distinguish between expected inflation and unexpected inflation
- Suppose that households expect the inflation rate to be 3% next year
 - workers will try to secure wage increases of at least 3%
 - net lenders will also take this into account

Stabilization of Unemployment, Inflation and the External Balance

- Suppose that the inflation rate next year turns out to be 5%
 - the real wage of workers will fall
 - firms will wish to expand production because their output price is rising relative to input prices
 - the real return on financial assets will be less than anticipated

Stabilization of Unemployment, Inflation and the External Balance

- Unexpected inflation redistributes income in arbitrary and unpredictable ways
 - from workers to firms
 - from lenders to borrowers
 - from those on fixed incomes to those with variable incomes that rise with inflation

Stabilization of Unemployment, Inflation and the External Balance

- In addition, many firms and households will pay proportionately more in taxes in an inflationary environment

Stabilization of Unemployment, Inflation and the External Balance

- Suppose that a household earns 4% on its surplus funds, the household is in the 25% tax bracket, and expected and unexpected inflation is zero
- Its real after-tax return is

nominal interest rate – inflation rate – expected taxes = real after-tax return

$$0.04 - 0 - (0.25 \times 0.04) = 0.03 = 3\%$$

Stabilization of Unemployment, Inflation and the External Balance

- Suppose that expected and unexpected inflation is 2% so the nominal interest rate rises to 6%
- The household's real after-tax return is now

$$0.06 - 2 - (0.25 \times 0.06) = 0.025 = 2.5\%$$

Stabilization of Unemployment, Inflation and the External Balance

- Since nominal returns are taxed (rather than real returns) inflation results in the government taking a larger portion of interest income
- Inflation also reduces the real value of nominal money balances held
 - inflation acts as a tax on money holdings

Stabilization of Unemployment, Inflation and the External Balance

- Researchers have also found that as the inflation rate rises, the variability of inflation tends to increase
 - the relationship among relative prices becomes more volatile and difficult to predict
 - pricing, production, saving, and investment decisions have to be made in a more uncertain environment
 - firms and households will be more cautious in making long-term commitments

Stabilization of Unemployment, Inflation and the External Balance

- Inflation can also affect a nation's international competitiveness
 - if prices of goods in the U.S. rise relative to the prices of competing goods in the rest of the world, the demand for U.S. products will fall
 - production and employment in the U.S. will decline
 - U.S. firms could lose a portion of their share of world markets

Stabilization of Unemployment, Inflation and the External Balance

- Policymakers should also be on the alert for deflation
 - a falling overall price level
- Deflation can be worse than inflation because it can lead to debt deflation, defaults, and bankruptcies

Numerical Objectives for Unemployment and Inflation

- General guidelines for policymakers are contained in two statutes
 - the Employment Act of 1946
 - the Humphrey-Hawkins Full Employment and Balanced Growth Act of 1978

Numerical Objectives for Unemployment and Inflation

- Both statutes direct policymakers to pursue policies that are consistent with achieving full employment and noninflationary growth
 - leaves it to policymakers to determine the rate of unemployment consistent with full employment and nonaccelerating inflation

Numerical Objectives for Unemployment and Inflation

- In the early years of the 21st century, most estimates of sustainable employment imply an unemployment rate of about 4.0 to 4.5%
 - this is often called the natural rate of unemployment
 - this is believed to be the unemployment rate that is consistent with stable prices
 - this is the unemployment rate that corresponds to the natural rate of output

Numerical Objectives for Unemployment and Inflation

- Over time, policymakers desire price stability and often stress that this should be the primary objective of monetary policy
 - price stability means 0% inflation to some analysts and 1 to 2% inflation to others
 - economists worry that when the inflation rate is 0%, the economy could slip into a deflation

Numerical Objectives for Unemployment and Inflation

- In setting the inflation goal over the short term, policymakers consider recent experience and attempt to balance their desire to reduce inflation with their desire to minimize the accompanying adverse effects on unemployment and economic growth

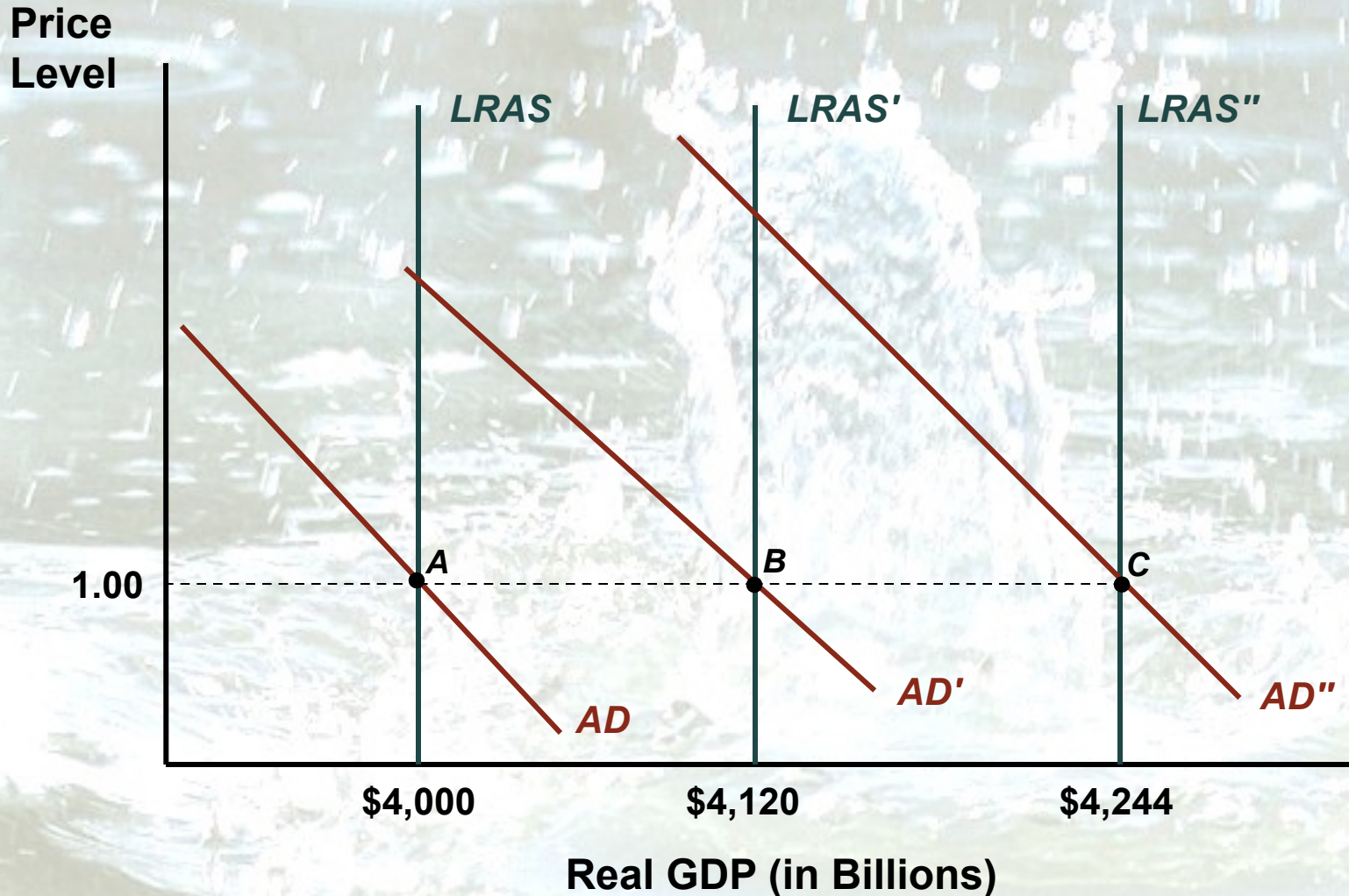
Numerical Objectives for Unemployment and Inflation

- In the long run, the goals of stable prices and full employment are believed to be perfectly compatible
- Based on our historical experience, the potential long-run growth rate for real GDP has been estimated to be between 2.5 to 3% per year

Changes in Aggregate Demand and Policy

- The obvious goals of monetary policy are to achieve successive long-run equilibriums with sustainable noninflationary growth
 - occurs if both aggregate demand and aggregate supply are shifting out at the same rate

Steady Noninflationary Growth



以上内容仅为本文档的试下载部分，为可阅读页数的一半内容。如要下载或阅读全文，请访问：<https://d.book118.com/438046126101007010>