Federal Reserve Bank of Chicago Academic

Advisory Council Meeting Agenda

November 17, 2017
9:30 a.m. – 1:30 p.m.

President Evans's Conference Room, 2nd Floor

9:15 – 9:30 a.m.	**Coffee**
9:30 – 10:45 a.m.	**Robert Gordon -** ***Alternative Targets for Monetary Policy***
10:45 – 11:30 p.m.	**Lewis Alexander –** ***The Role and Structure of the Federal Reserve's Balance Sheet in the Long Run: Factors to Consider***
11:30 – 11:45 a.m.	**Introduction to lunchtime discussion**

Directors' Dining Room, 3rd Floor

12:00 – 1:30 p.m.	**Lunch and Policy Discussion**

Members of the Panel

Lewis Alexander	Nomura
Alan Auerbach	University of California, Berkeley
Christian Broda	Duquesne Capital
Robert Gordon	Northwestern University
Ethan Harris	Bank of America Merrill Lynch
Anil Kashyap	University of Chicago
Randy Kroszner	University of Chicago
Matthew Shapiro	University of Michigan
Linda Tesar	University of Michigan

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Charles Evans
Daniel Sullivan
Spencer Krane
David Marshall
Anna Paulson
Dan Aaronson
Jonas Fisher
Hesna Genay
Luca Benzoni

Background for Lunchtime Policy Discussion

The following passage from the minutes of the September FOMC meeting is informative about the conflicting risks the Committee is confronting at the moment:

> "Nevertheless, many participants expressed concern that the low inflation readings this year might reflect not only transitory factors, but also the influence of developments that could prove more persistent, and it was noted that some patience in removing policy accommodation while assessing trends in inflation was warranted. A few of these participants thought that no further increases in the federal funds rate were called for in the near term or that the upward trajectory of the federal funds rate might appropriately be quite shallow. Some other participants, however, were more worried about upside risks to inflation arising from a labor market that had already reached full employment and was projected to tighten further. Their concerns were heightened by the apparent easing in financial conditions that had developed since the Committee's policy normalization process was initiated in December 2015. These participants cautioned that an unduly slow pace in removing policy accommodation could result in an overshoot of the Committee's inflation objective in the medium term that would likely be costly to reverse or could lead to an intensification of financial stability risks or to other imbalances that might prove difficult to unwind."

Possible questions:

Do you have any opinions regarding the transitory vs. persistence nature of current low inflation? If you are in the persistent camp, what do you think is holding it down? Are we battling below-target inflation expectations? If so, do you think Fed policy is partially to blame?

What about optimal policy design? Suppose we undershot the natural rate of unemployment for some time to help boost inflation. Would the subsequent tightening to bring the economy back to potential pose an undue risk of a large recession? How should we balance these considerations against the shortfall from our inflation objective?

Are you currently concerned about financial instability? If so, what, if any, is the appropriate monetary policy response?

The September minutes also included the following observation about inflation:

> "Some participants discussed the possibility that secular trends, such as the influence of technological innovations on competition and business pricing, also might have been muting inflationary pressures and could be intensifying. It was noted that other advanced economies were also experiencing low inflation, which might suggest that common global factors could be contributing to persistence of below-target inflation in the United States and abroad."

Possible questions:

What do you think of this hypothesis? If true, should monetary policy ignore such trends (e.g., akin to "seeing through supply shocks") or should it provide additional accommodation offset them?