

ECONOMIC ADVISORY PANEL MEETING

**Federal Reserve Bank of New York
33 Liberty Street, New York, New York**

Friday, November 15th, 2013

AGENDA

10:00 a.m. Coffee, Benjamin Strong Room, 10th floor

10:30 a.m. Challenges ahead for the incoming Fed Chair

- Presentations by Gregory Mankiw and Michael Woodford
- Discussion based on the presentations

11:45 a.m. Current Policy Issues Go-Round

12:30 p.m. Luncheon, 10th floor

Challenges ahead for the incoming Fed Chair

“While we have made progress, we have farther to go. The mandate of the Federal Reserve is to serve all the American people, and too many Americans still can't find a job and worry how they will pay their bills and provide for their families. The Federal Reserve can help, if it does its job effectively. We can help ensure that everyone has the opportunity to work hard and build a better life. We can ensure that inflation remains in check and doesn't undermine the benefits of a growing economy. We can and must safeguard the financial system.” Statement by Janet L. Yellen, October 9, 2013.

Federal Reserve Board Vice-Chair Yellen's statement at the occasion of the announcement of her nomination to the Federal Reserve Chair notes a number of the issues that the incoming Chair will face in the coming years. These issues include:

- Although the unemployment rate has declined considerably from its peak of 10 percent in October 2009, it still remains well above the longer-run estimates of FOMC participants in the SEP. Moreover, the SEP projections indicate that unemployment will remain elevated for some time to come. How and to what extent can monetary policy help achieve a lower path for unemployment in the current economic environment?
- Inflation has been running below the FOMC's longer-run goal of 2 percent as measured by the PCE deflator, while measures of inflation expectations have remained fairly well anchored. Can the FOMC maintain inflation near its objective and keep inflation expectations anchored while pursuing its other mandated goals?
- As financial stability has become a more important objective for the Federal Reserve, how might the interactions between financial stability and monetary policy goals complicate its effort to pursue maximum employment and price stability?

Beyond the larger issues, the current and likely future policy environment provides a number of challenges for the incoming Chair. Among the issues:

- Conducting monetary policy during a long period at the zero lower bound. Such issues include how to provide credible guidance for the path of the policy rate far into the future.
- Conducting monetary policy with a relatively large balance sheet. Such issues include whether and how to taper the current purchases program as well as when to end the program.
- Conducting policy with multiple policy tools. Such issues include the interactions between balance sheet policy and interest rate policy evident in the strong reactions of the

market-implied expected path for the federal funds rate to the communications following the June and September FOMC meetings.

- Conducting the renormalization of policy once it becomes appropriate. For example, at the June 2013 press conference, the Chairman said: “While participants continue to think that, in the long run, the Federal Reserve’s portfolio should consist predominantly of Treasury securities, a strong majority now expects that the Committee will not sell agency mortgage-backed securities during the process of normalizing monetary policy, although in the longer run, limited sales could be used to reduce or eliminate residual MBS holdings.” Should further guidance be provided on the normalization of the balance sheet?
- Conducting financial stability policy. For example, to what extent should the Federal Reserve be more active in identifying and addressing possible asset price “bubbles” and/or speculative activity?

To discuss the challenges facing the incoming Chair, Gregory Mankiw and Michael Woodford will make short presentations on their perspectives about some of the issues that the new Chairman will face. The remainder of the panel participants will give their perspectives in the subsequent discussion.