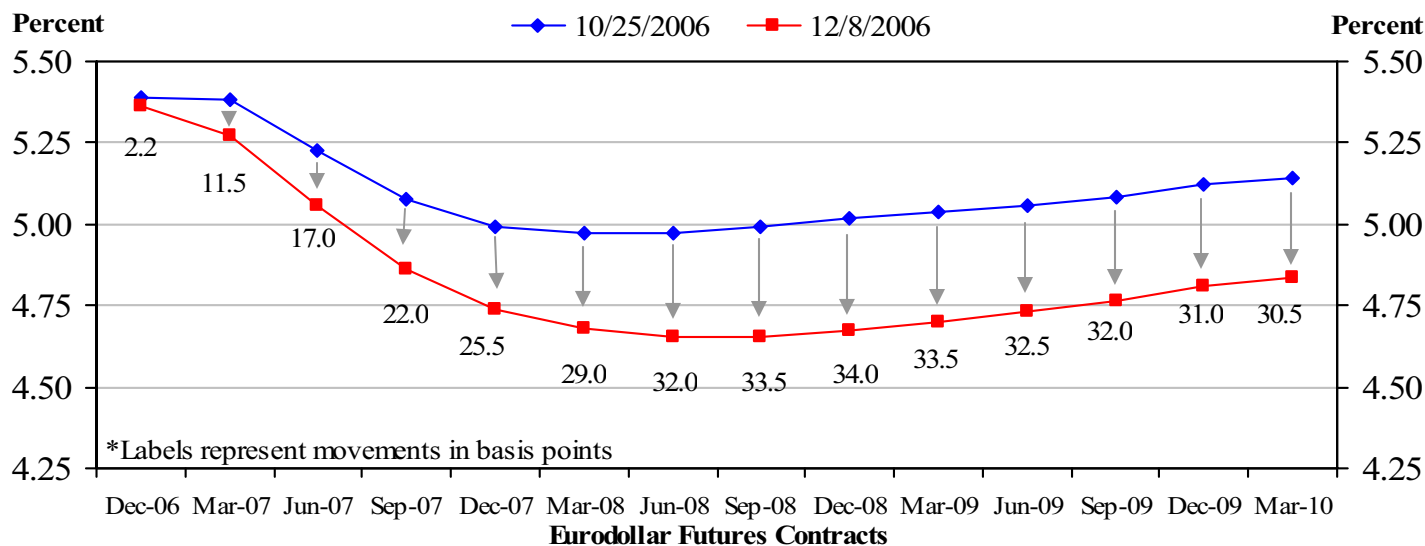


Appendix 1: Materials used by Mr. Kos

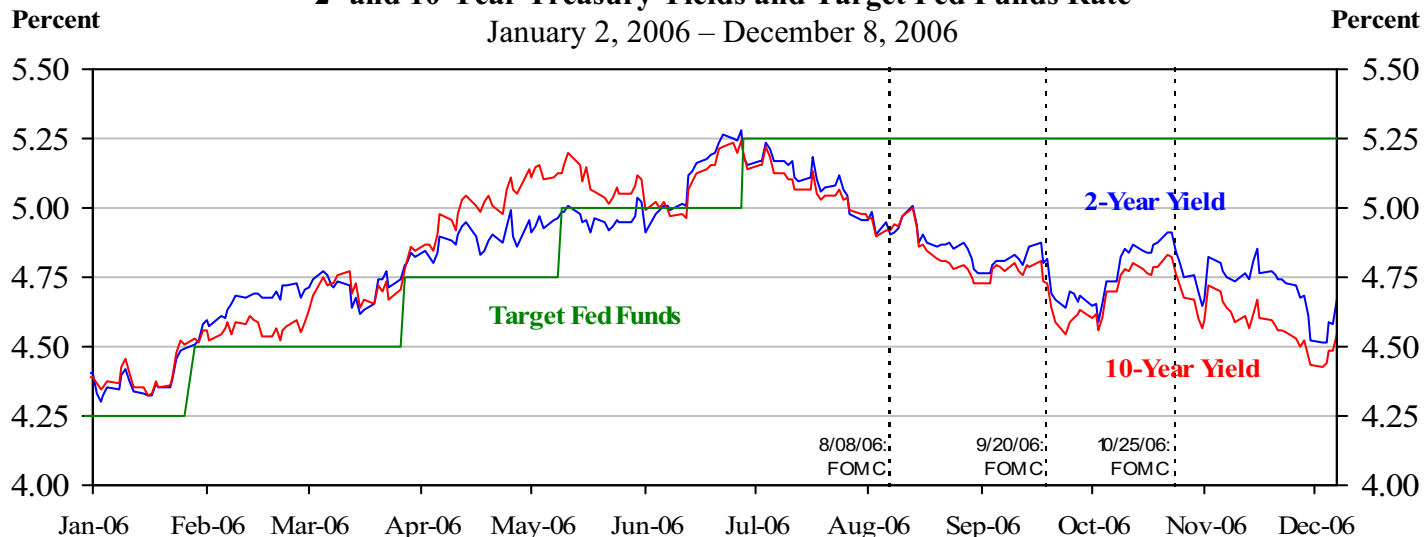
Eurodollar Futures Curves

October 25, 2006 – December 8, 2006



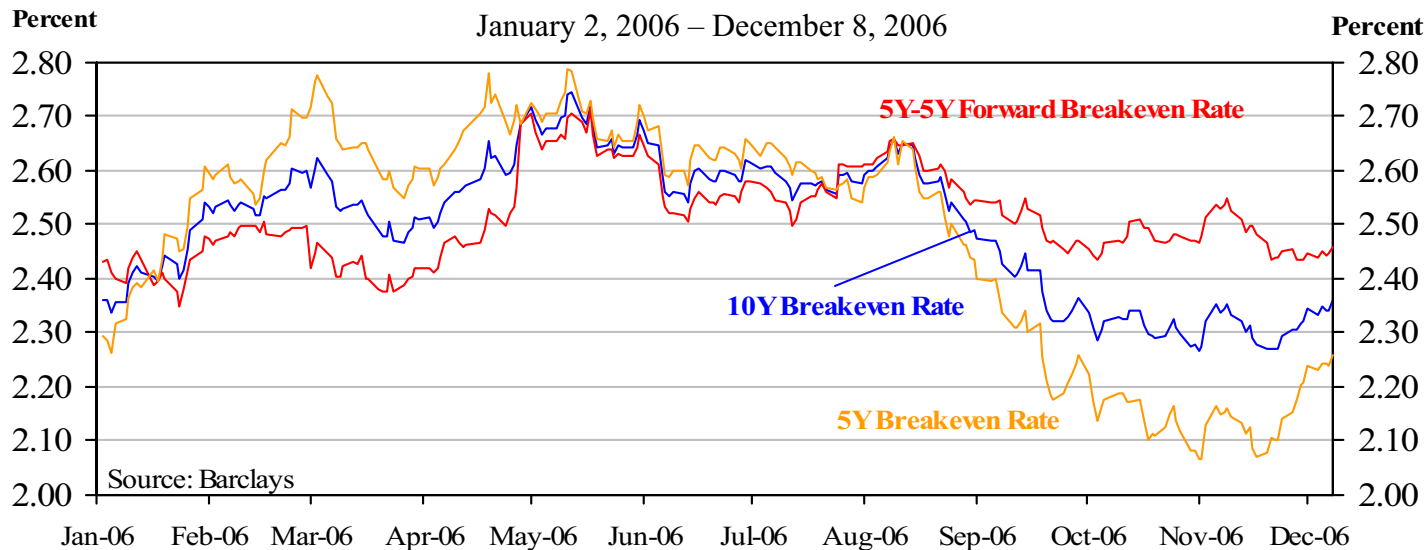
2- and 10-Year Treasury Yields and Target Fed Funds Rate

January 2, 2006 – December 8, 2006



U.S. Breakeven Inflation Rates

January 2, 2006 – December 8, 2006

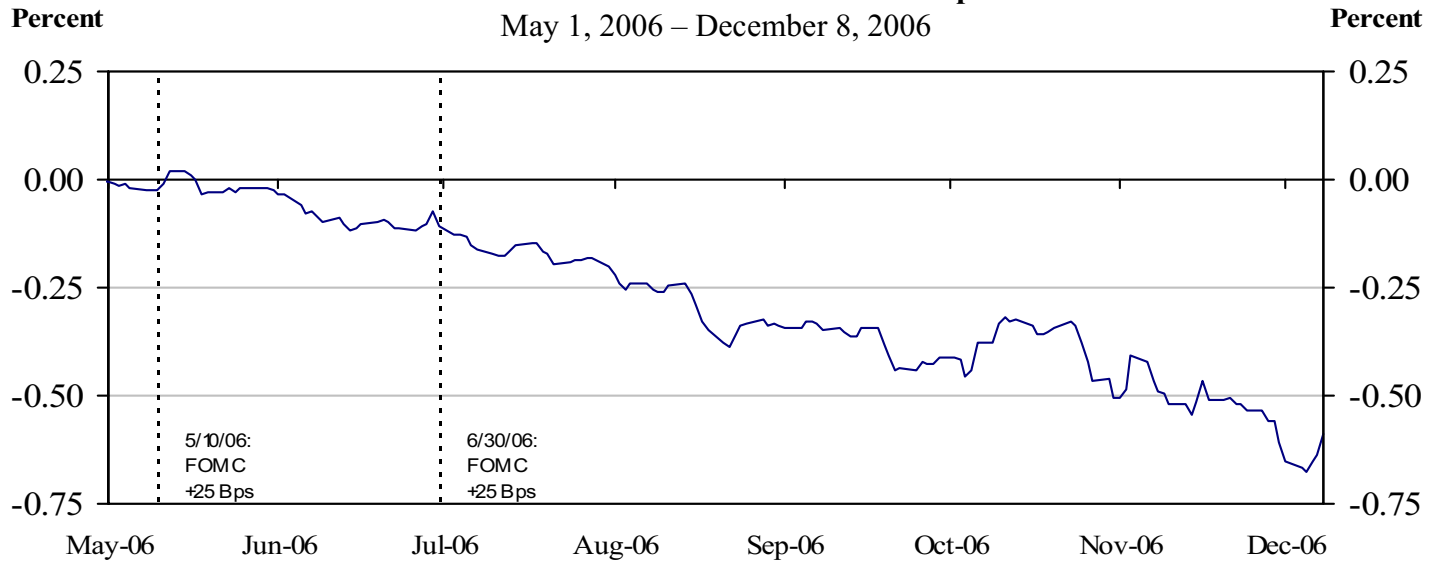


Class II FOMC – Restricted FR

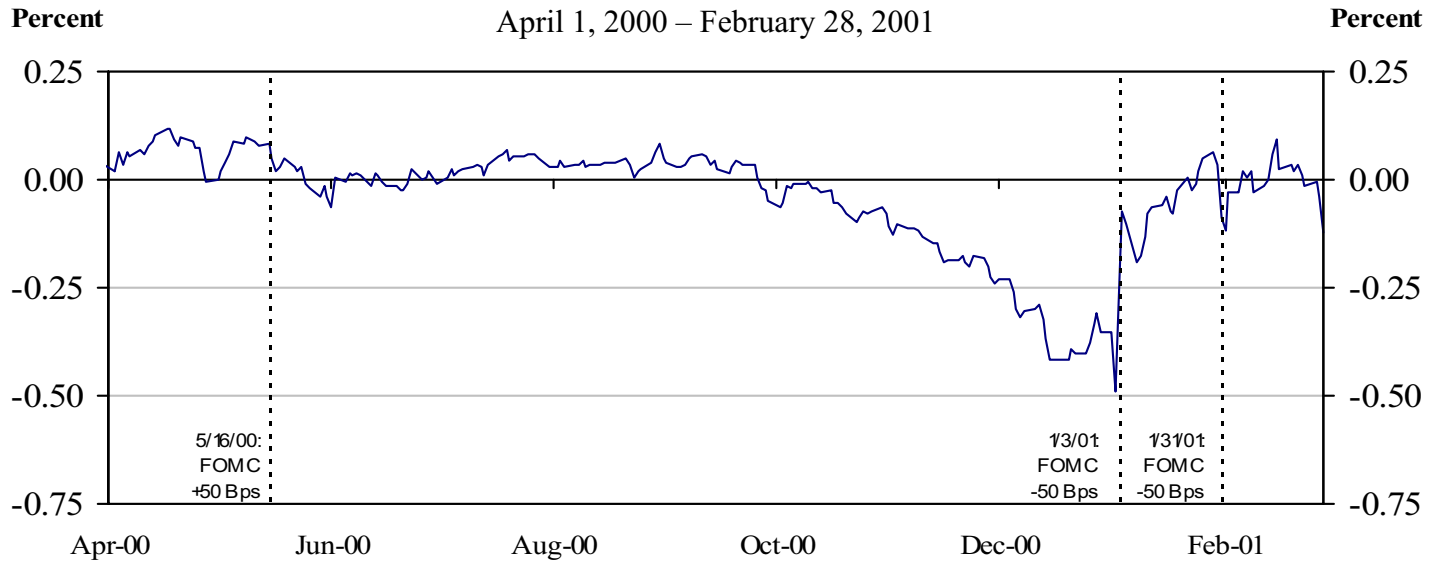
Page 2 of 5

Eurodollar March 2008-2007 Calendar Spread

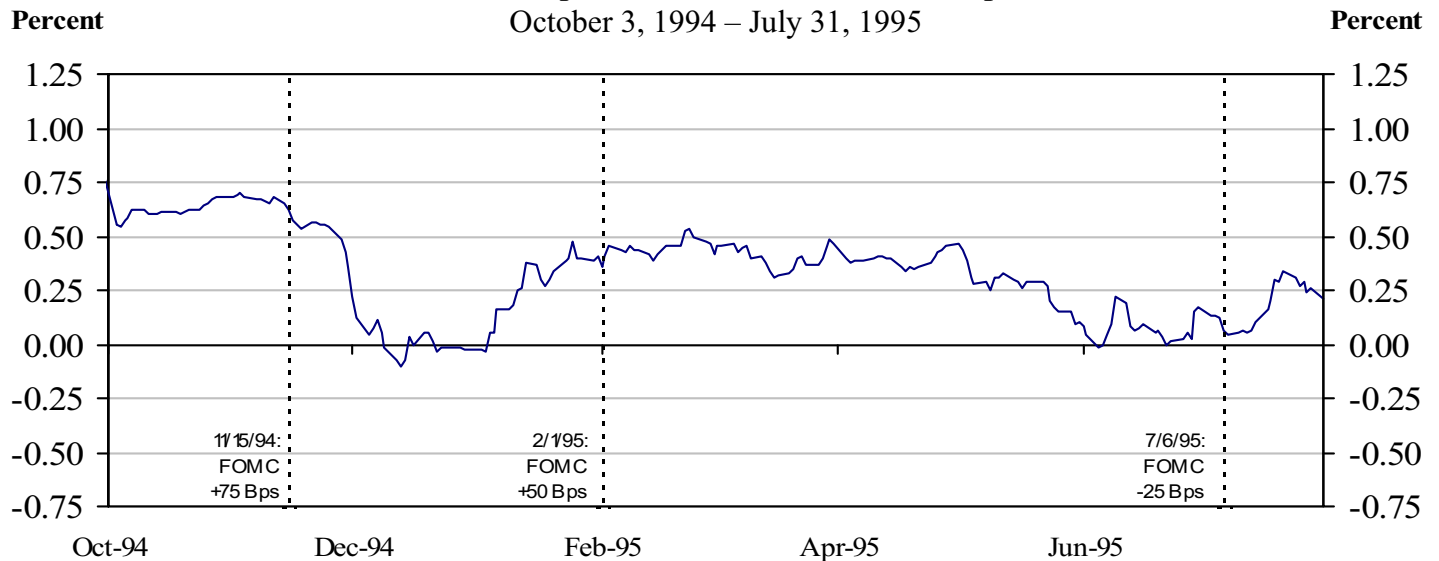
May 1, 2006 – December 8, 2006

**Eurodollar March 2002-2001 Calendar Spread**

April 1, 2000 – February 28, 2001

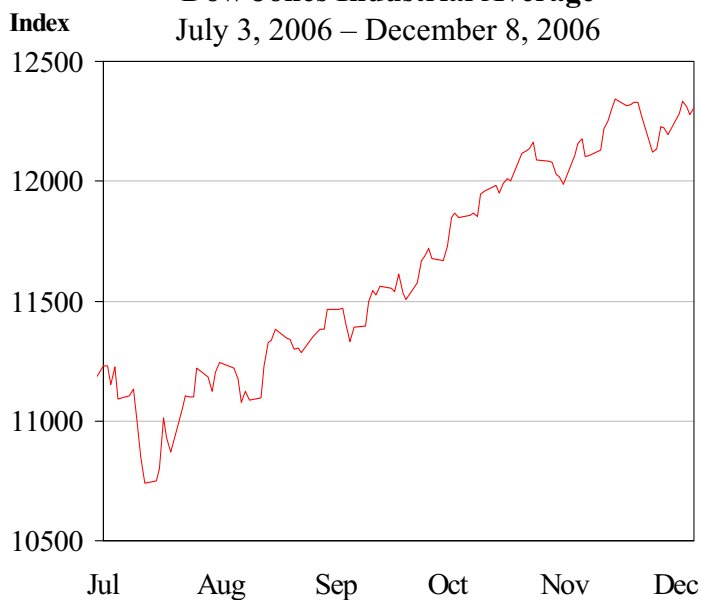
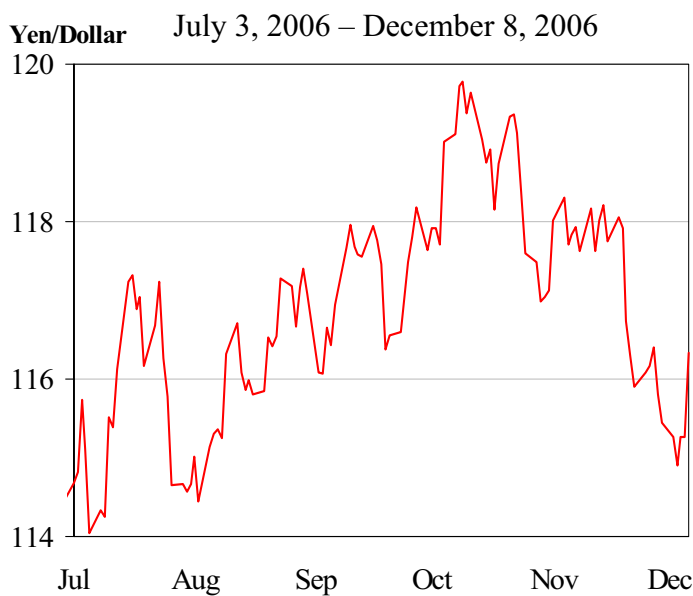
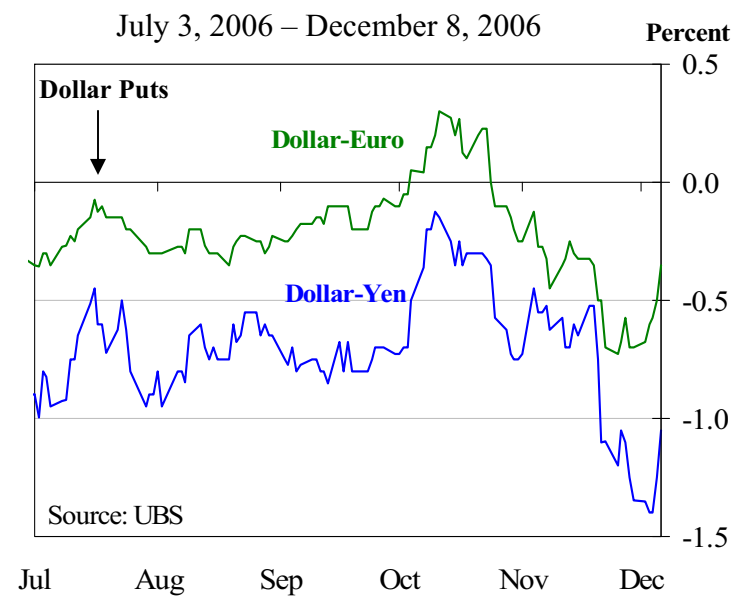
**Eurodollar September 1996-1995 Calendar Spread**

October 3, 1994 – July 31, 1995



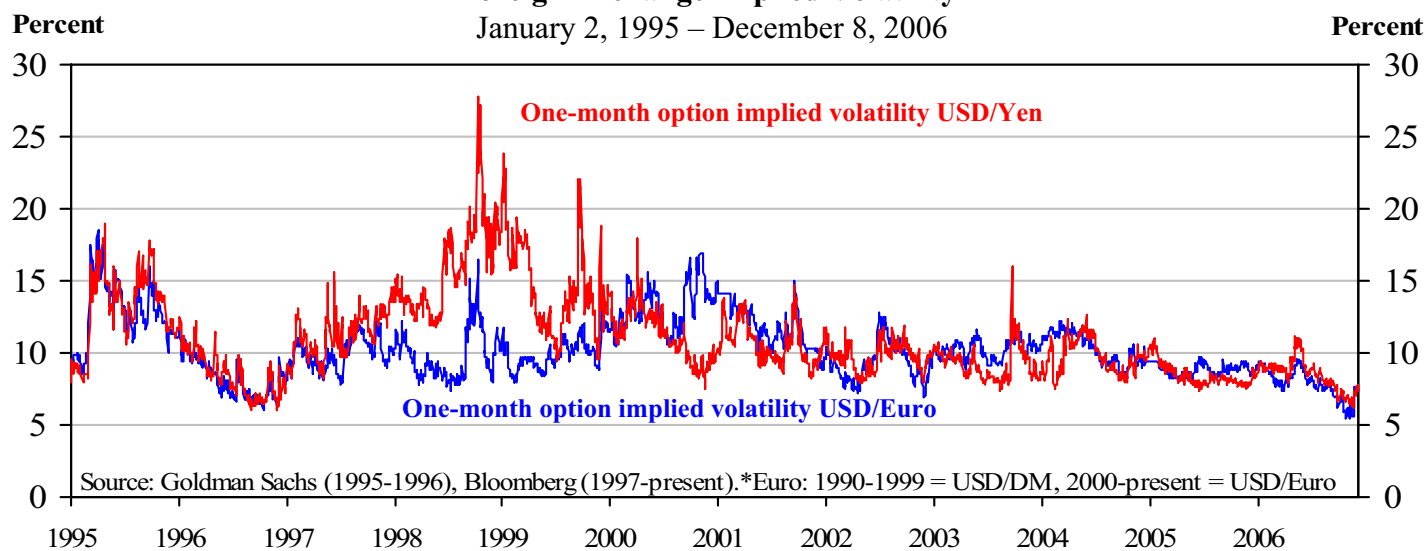
Class II FOMC – Restricted FR

Page 3 of 5

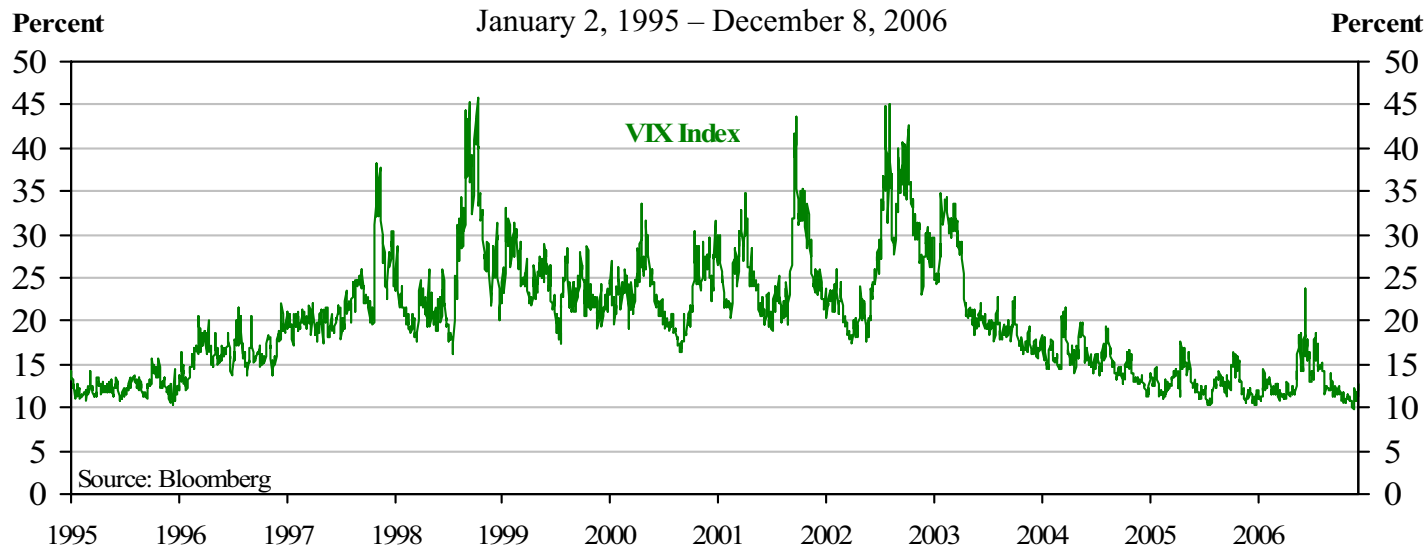
Dow Jones Industrial Average**S&P 500 and NASDAQ****Dollar - Euro****Dollar - Pound****Yen - Dollar****1-Month Risk Reversals**

Foreign Exchange Implied Volatility

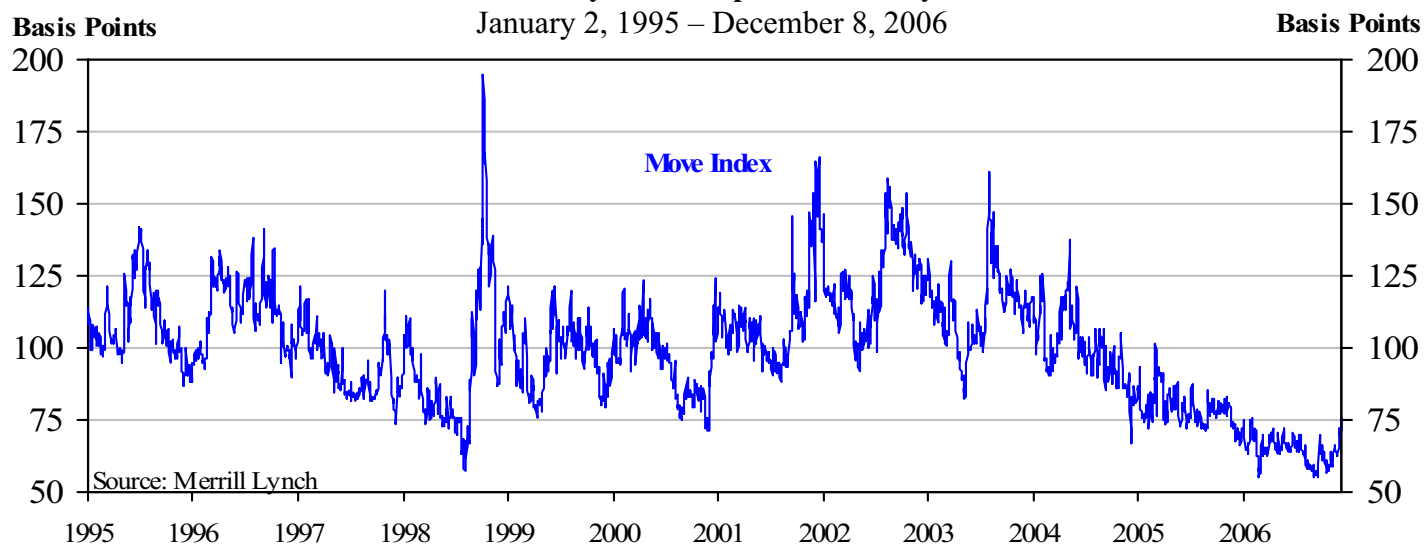
January 2, 1995 – December 8, 2006

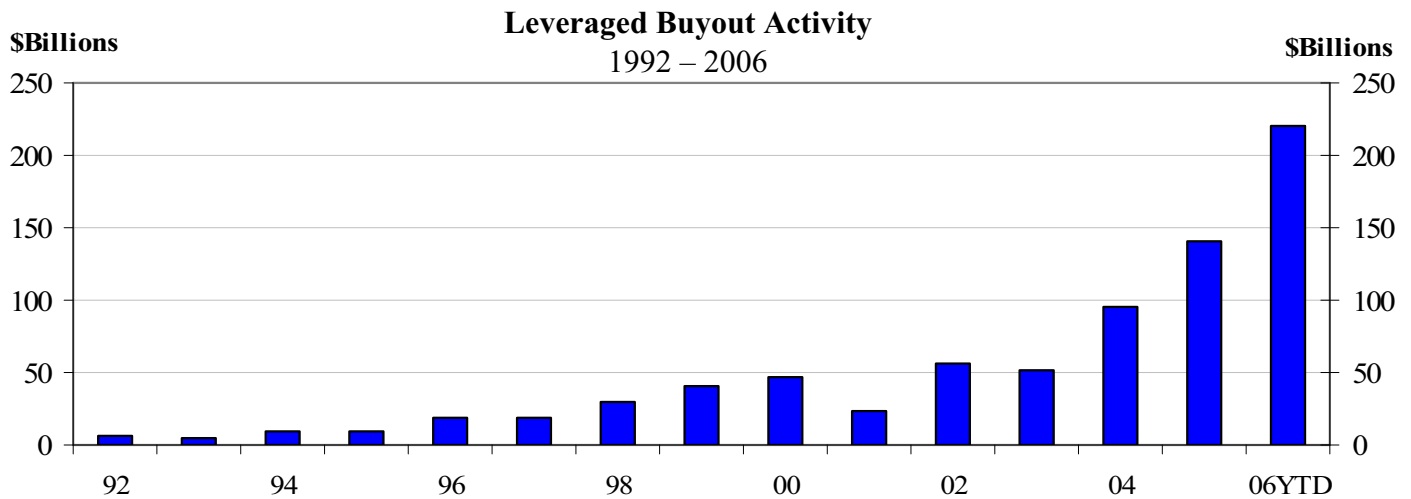
**Implied Volatility on the S&P 100**

January 2, 1995 – December 8, 2006

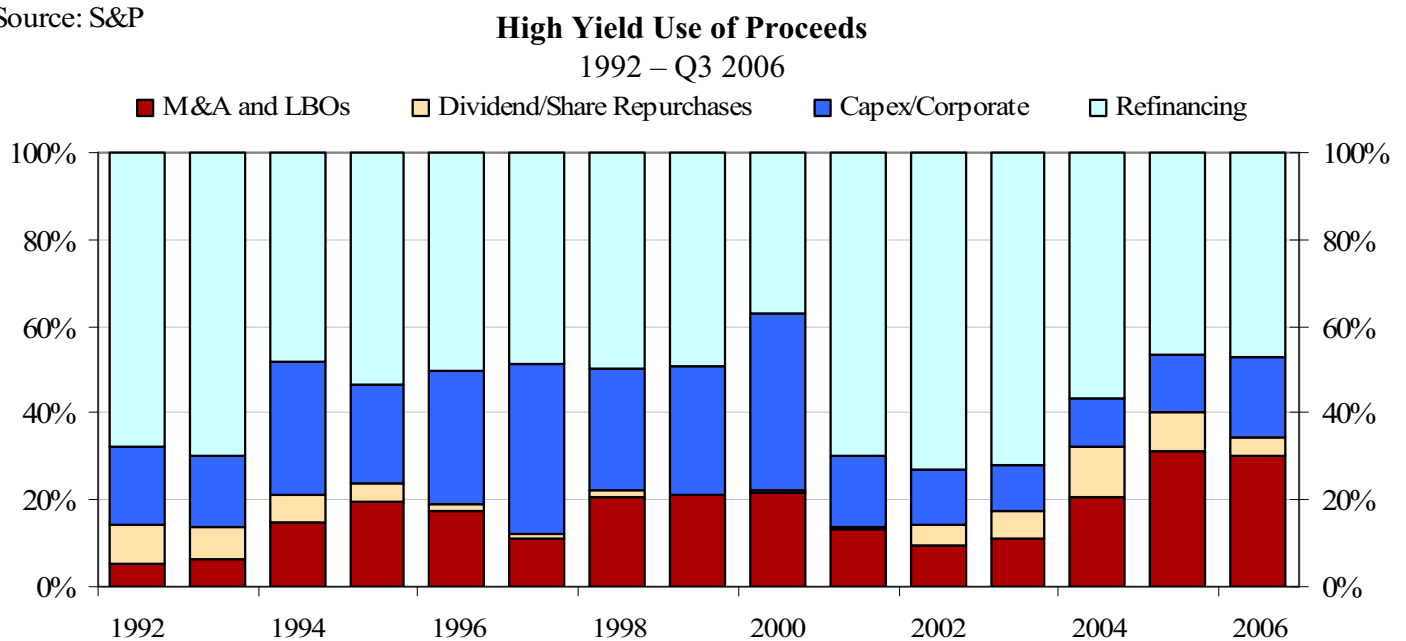
**Treasury Yield Implied Volatility**

January 2, 1995 – December 8, 2006

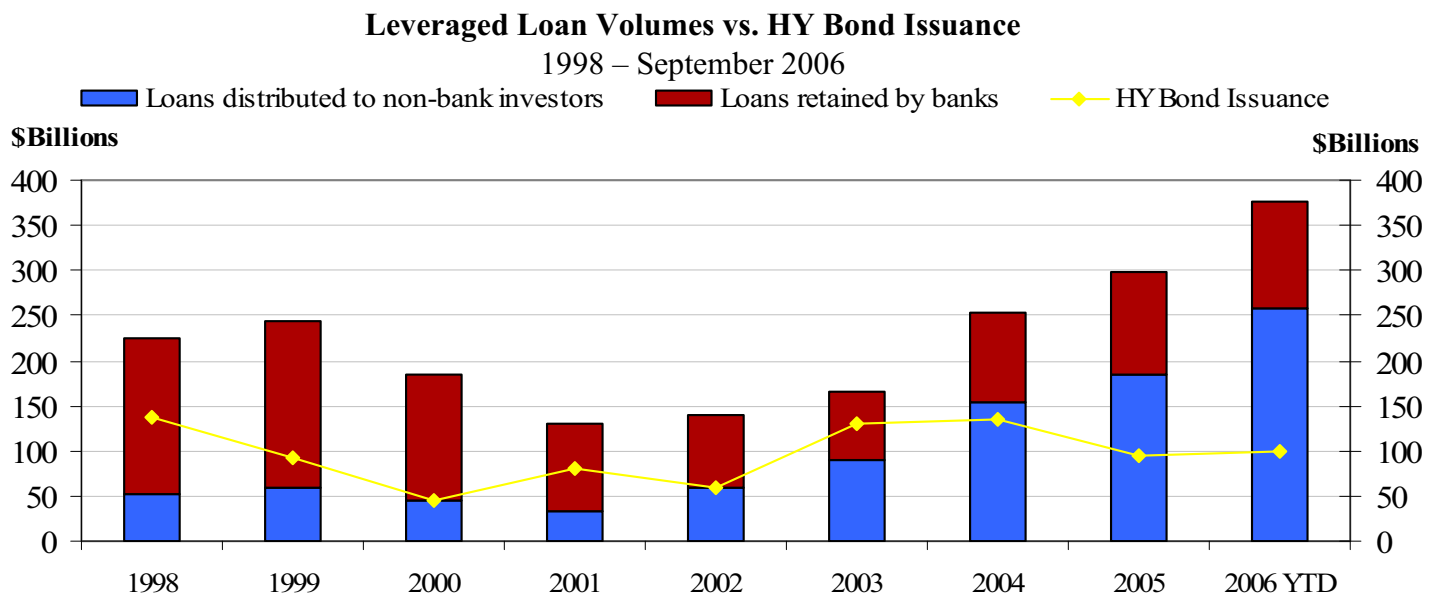




Source: S&P



Source: Merrill Lynch



Source: S&P LCD

Appendix 2: Materials used by Mr. Madigan

Class I FOMC – Restricted Controlled FR

Material for

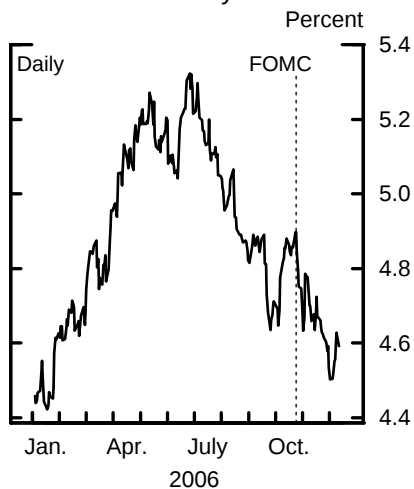
FOMC Briefing on Monetary Policy Alternatives

Brian Madigan
December 12, 2006

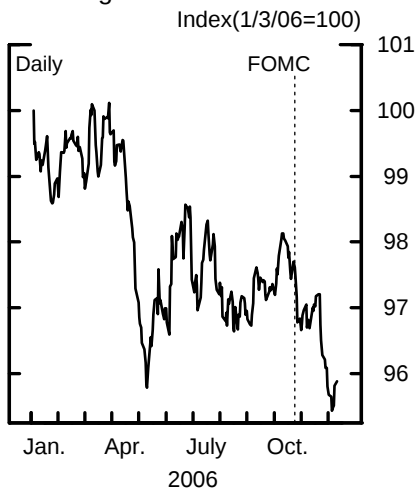
Exhibit 1

Financial Market Developments

Ten-Year Treasury Yield

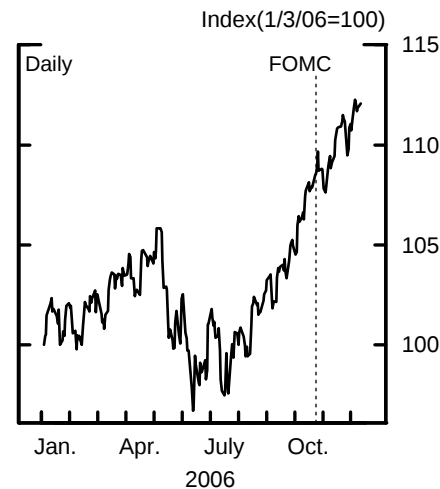


Exchange Value of Dollar*

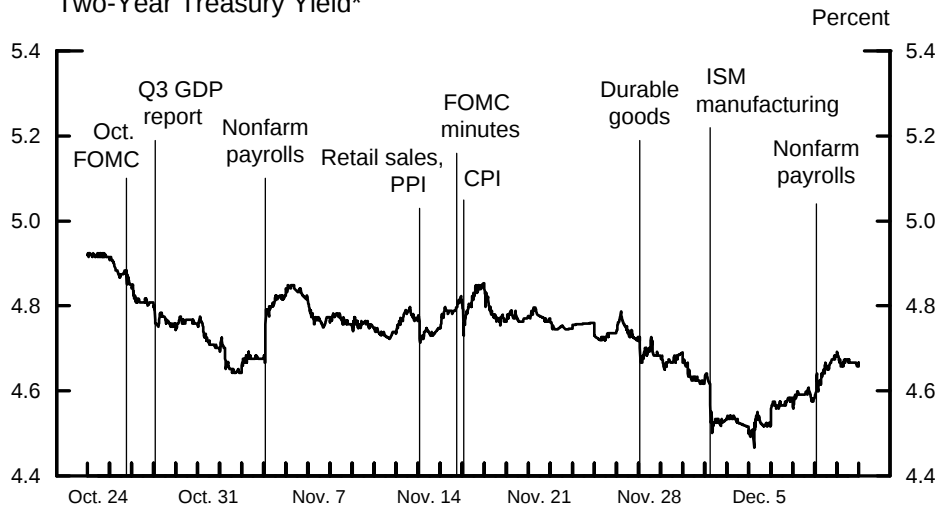


*Broad index.

Wilshire 5000



Two-Year Treasury Yield*

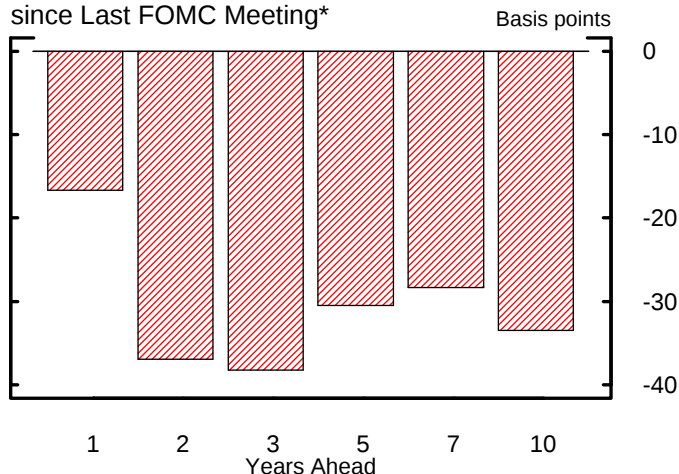


Inflation Compensation

	Level	Change from Oct. 24
Five-year*	2.26	0
Five-year five years ahead	2.54	-7

*Adjusted for the carry effect.

Change in Implied One-Year Forward Treasury Rates since Last FOMC Meeting*



*Forward rates are the one-year rates maturing at the end of the year shown on the horizontal axis that are implied by the smoothed Treasury yield curve.

Revisions to GDP Forecasts

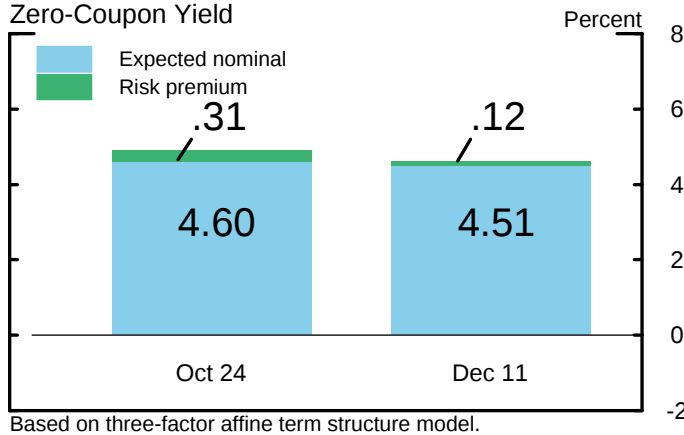
	Percentage points
Oct. to Dec. revision	2006:Q3-2007:Q4
Primary Dealers	-.3
Blue Chip	-.2
Greenbook*	0
Most recent revision	Long-term
Blue Chip (2008-17)	0
Primary Dealers (potential GDP)	0

*Adjusted for motor vehicle anomaly.

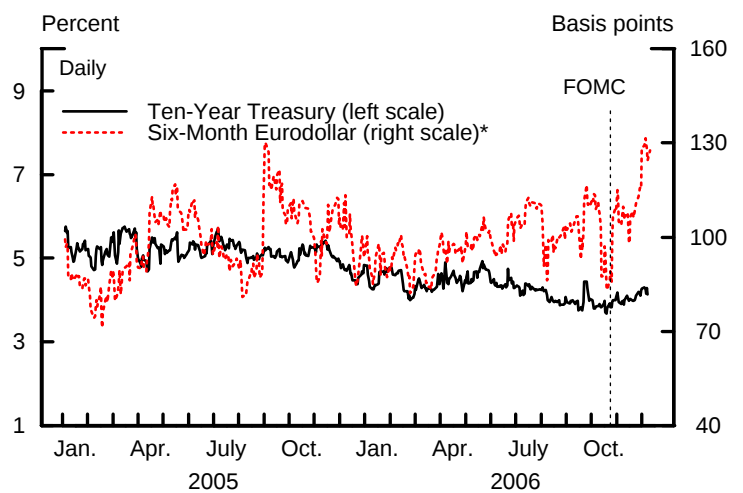
Exhibit 2

Financial Market Developments

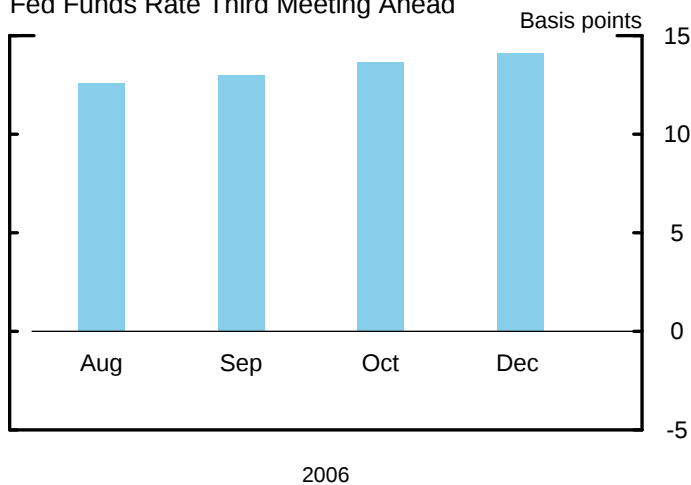
Estimated Decomposition of Ten-Year Treasury Zero-Coupon Yield



Implied Volatilities



Dealers' Average Subjective Uncertainty: Fed Funds Rate Third Meeting Ahead



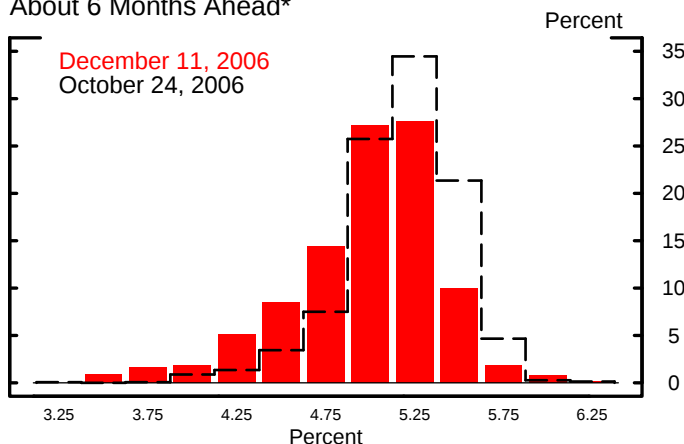
Source: Trading desk's survey of primary dealers. Uncertainty: mean standard deviation of each dealer's subjective distribution.

Expected Target Funds Rate

	Primary Dealers	Fed Funds Futures
2007: Q1	5.16	5.16
2007: Q2	4.98	4.99
2007: Q3	4.85	4.73
2007: Q4	4.82	4.54

Source: Federal funds futures quotes and trading desk's survey of primary dealers.

Implied Distribution of Federal Funds Rate About 6 Months Ahead*



*Based on the distribution of the three-month Eurodollar rate five months ahead (adjusted for a risk premium), as implied by options on Eurodollar futures contracts.

Dealer Expectations For Today's Announcement

- Dealers expect no change to stance of policy.
- Most expect little change to wording:
 - only updates of characterization of economy
- A minority anticipate a more significant softening of words

Source: Trading desk's survey of primary dealers.

Exhibit 3 Monetary Policy Alternatives

Case for Alternative A

Unchanged funds rate, balanced risks

- Still concerned about inflation risks
- But see greater downside risks
 - slight weakening of near-term projection
 - possible nonlinear effects as growth slows
 - financial markets may be signalling weakness
- Consistent with estimated policy rules

Case for Alternative C

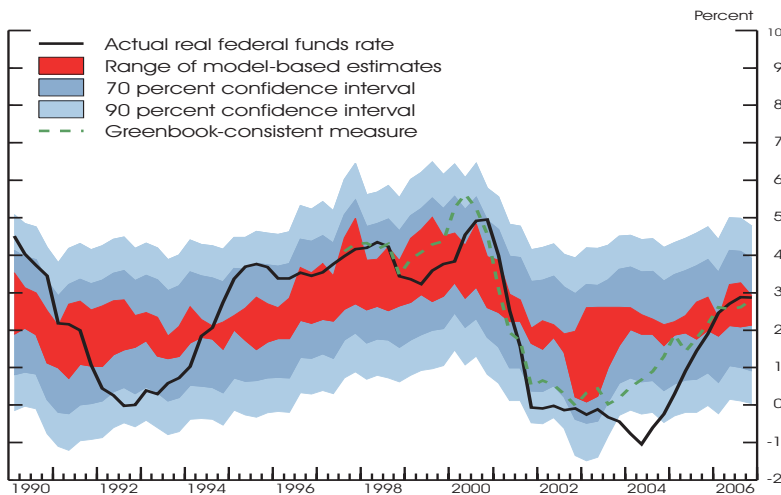
+25 b.p., upside risks

- Financial conditions have become more stimulative...
- As labor markets have tightened further.
- Core inflation does not appear to be on a noticeable downward trend.
- The Committee may be dissatisfied with projected decline in inflation.

Case for Alternative B *Unchanged Funds Rate, Inflation Risks*

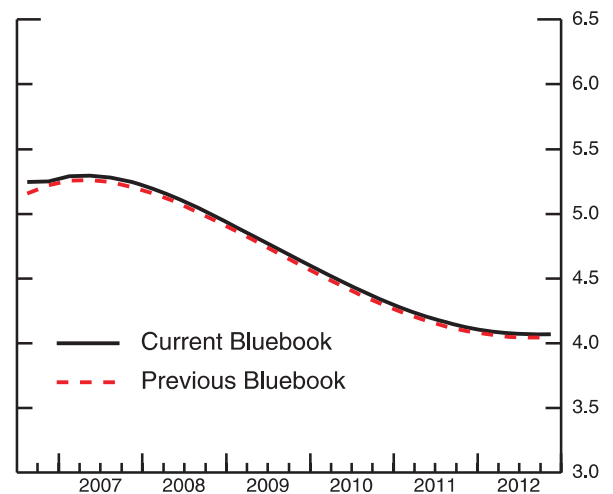
Equilibrium Real Federal Funds Rate

Short-Run Estimates with Confidence Intervals



Optimal Control Simulation Two Percent Inflation Objective

Federal Funds Rate



Inflation risks apparently still predominant

- Unemployment rate below most estimates of NAIRU
- Inflation above some participants' preferred ranges

Bluebook Version of Table 1

Table 1: Alternative Language for the December FOMC Announcement				
	October FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.
Rationale	2. Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although that adjustment is ongoing and could have a more pronounced effect on growth in coming quarters than anticipated, the economy seems likely to expand at a moderate pace.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although the recent pace of growth appears to have been somewhat more subdued than anticipated, the economy seems likely to expand at a moderate pace on balance over coming quarters.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. The economy seems likely to expand at a moderate pace on balance over coming quarters.
	3. Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	Readings on core inflation have improved modestly since the spring but remain elevated. The high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	[Unchanged]	Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. Inflation pressures seem likely to moderate over time, but the extent and speed of that moderation are uncertain. In these circumstances, the Committee believed that an additional firming of policy was appropriate to foster the achievement of price stability.
Assessment of Risk	4. Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Unchanged]	Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as to the upside. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.

Possible Substitute Language

Table 1: Alternative Language for the December FOMC Announcement

	October FOMC	Alternative A	Alternative B	Alternative C
Policy Decision	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.
Rationale	2. Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although that adjustment is ongoing and could have a more pronounced effect on growth in coming quarters than anticipated, the economy seems likely to expand at a moderate pace.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although some recent indicators of production and spending have been slightly weaker than anticipated, the economy seems likely to expand at a moderate pace on balance over coming quarters.	Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. The economy seems likely to expand at a moderate pace on balance over coming quarters.
	3. Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	Readings on core inflation have improved modestly since the spring but remain elevated. The high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	[Unchanged]	Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. Inflation pressures seem likely to moderate over time, but the extent and speed of that moderation are uncertain. In these circumstances, the Committee believed that an additional firming of policy was appropriate to foster the achievement of price stability.
Assessment of Risk	4. Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Unchanged]	Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as to the upside. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.