BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

May 4, 1976

CONFIDENTIAL (FR)
CLASS II FOMC

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Attached is a memorandum prepared in the Division of Research and Statistics in response to a question raised at the April FOMC meeting.

Attachment

CONFIDENTIAL (FR)
CLASS II FOMC

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 30, 1976

To Mr. Lyle E. Gramley

Subject: Money Multipliers

From David Wyss DW

The Congressional Budget Office has not developed any estimates of the effects of alternative monetary policies closely comparable to those presented at the last FOMC meeting. In the recent "Budget Options" publication of the CBO, alternative monetary policies were couched in terms of their effects on interest rates.

The CBO staff relies for its estimates on a rough average computed from simulations of four well-known econometric models--the Wharton, Data Resources, Chase Econometrics, and the MIT-PENN-SSRC models. The latter model is the public version of the one maintained by the Federal Reserve Board staff, and gives results with regard to alternative monetary policies that are virtually indistinguishable from those produced by our model.

The following table indicates the impact of a $1 change in unborrowed reserves on GNP in each of these four models after four and eight quarters. Unborrowed reserves is the only monetary policy variable common to all four models.

Effect of $1 Change in Unborrowed Reserves on GNP

	4 quarters	8 quarters
MPS	7.5	18.7
DRI	21.5	34.9
Wharton	5.8	14.3
Chase	2.7	6.0

Based on my general knowledge of these models, I believe that if these results were translated into M_1 impacts, the picture would be changed. The MPS and Wharton models would show roughly comparable results, and the money multipliers in the Chase model would be much smaller. The DRI model would show a money multiplier only slightly higher than those for MPS and Wharton models. This is the result of a relationship between M_1 and unborrowed reserves in the DRI model which is very dependent on the interest rate.

The Chase model consistently shows a much lower impact of monetary policy than the other three. People who have used the Chase model seem to feel that it does poorly in simulating alternative monetary and fiscal policies, and generally they do not use it for that purpose.