

---

# **A Case for Monetary Policy Accommodation**

Virginia Commonwealth University School of Business Foundation  
2013 Investors Circle Dinner  
Richmond, VA  
April 2, 2013

Charles L. Evans  
*President and CEO*  
Federal Reserve Bank of Chicago

# Long-Run Strategy for Monetary Policy (January 2012)

---

- $\pi^* = 2\%$  PCE inflation
- $U_t^* \sim 5.25\% - 6\%$  time-varying

## SEP long-run central tendency

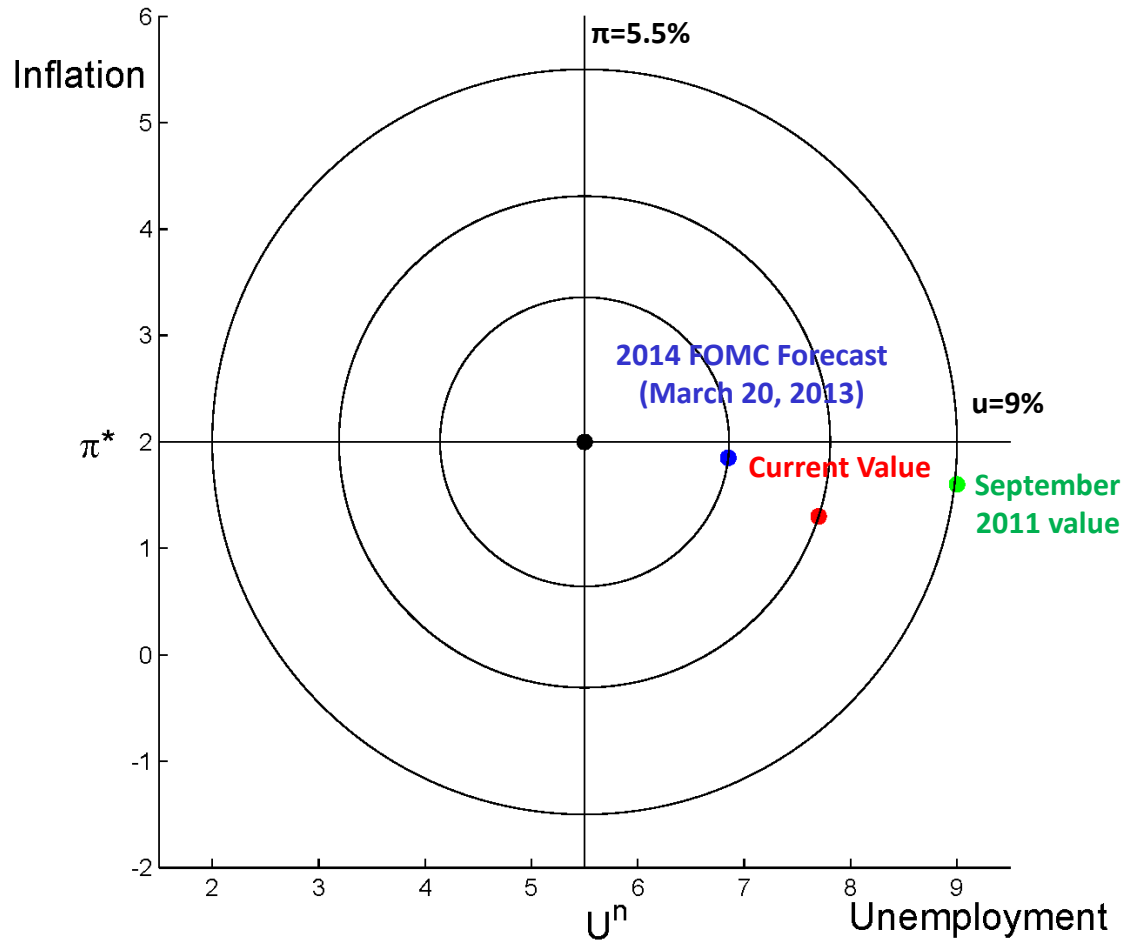
- Balanced approach to reducing deviations of inflation and employment from long-run objectives

# Current and Expected Policy Losses

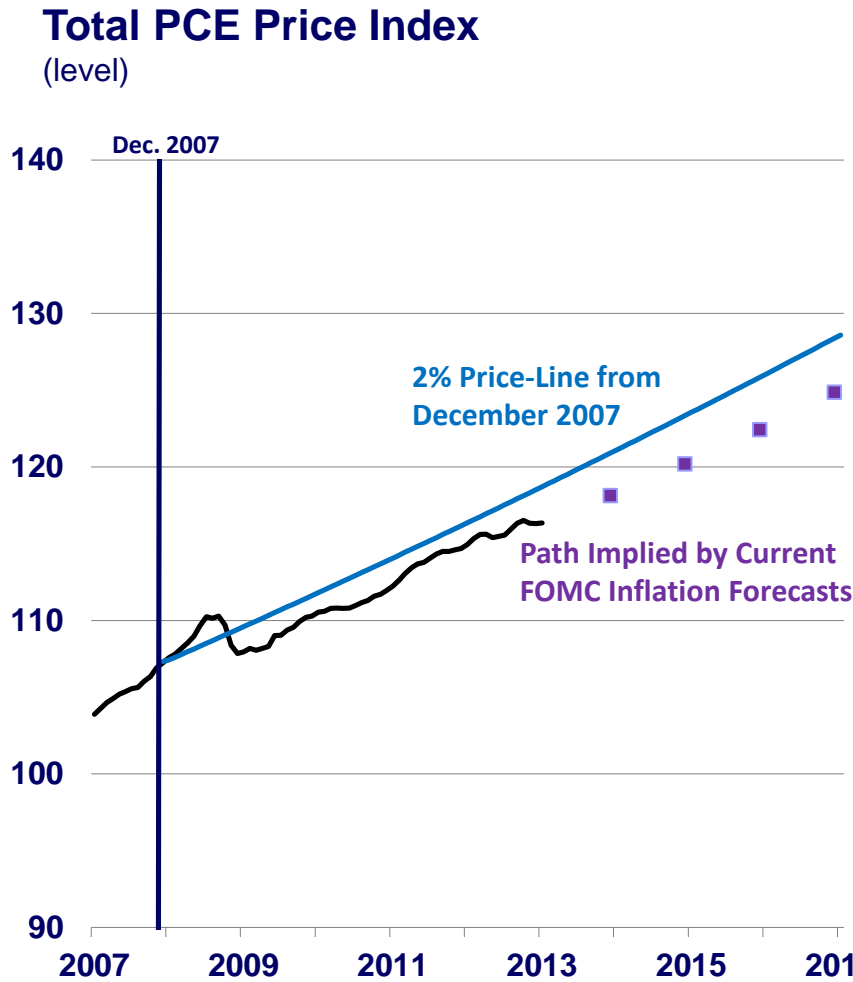
**Loss Function**  
(percent)

$$L = (\pi - \pi^*)^2 + 0.25 (y - y^*)^2$$

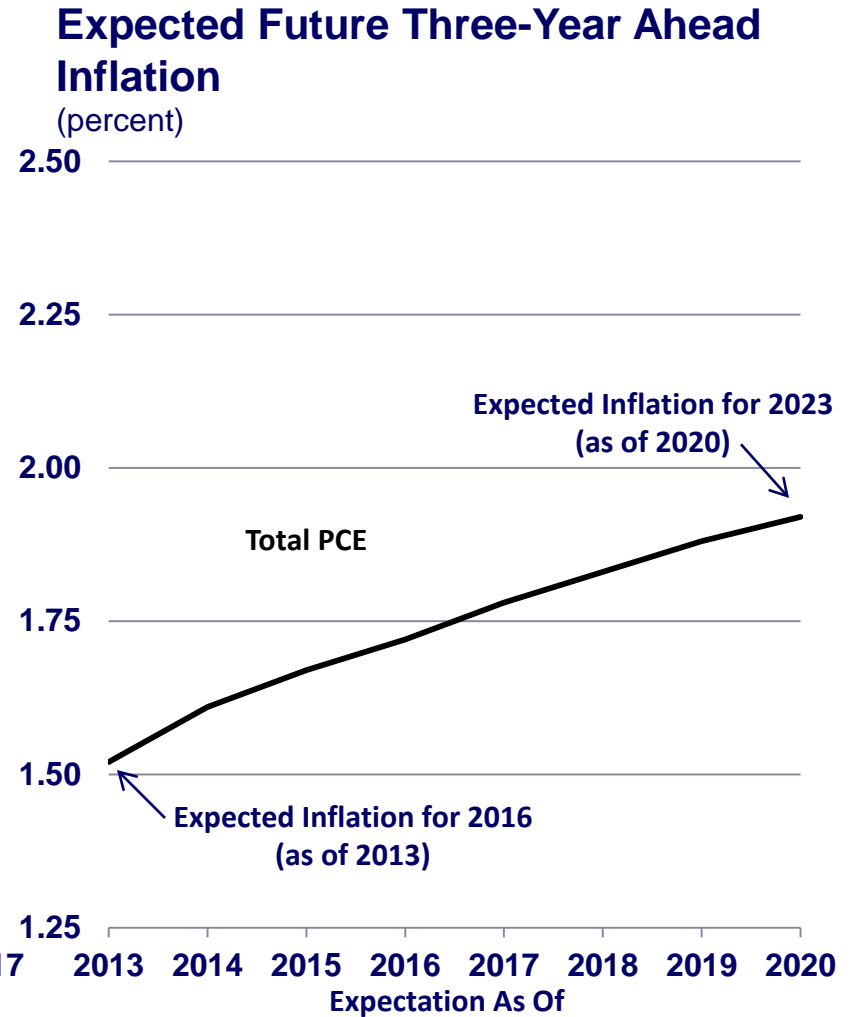
$$L = (\pi - 2)^2 + (u - u^n)^2$$



# Subdued Actual and Expected Inflation



Source: Inflation forecasts are from the March 20, 2013 FOMC Summary of Economic Projections



Source: FRB-Chicago Staff Calculations

# Recent Policy Actions

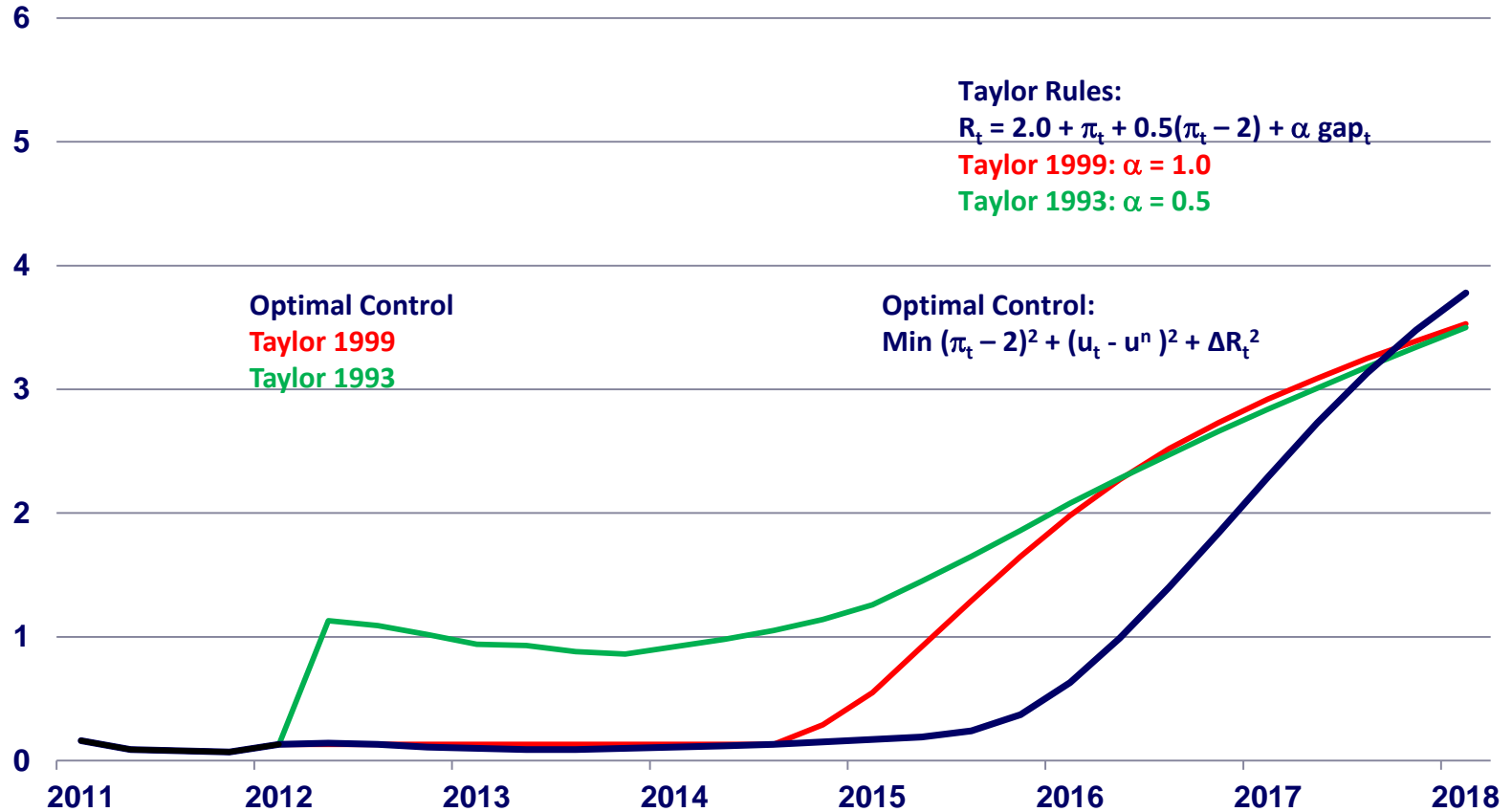
---

- **Open-ended Treasury and MBS purchases**
  - \$85 billion per month
  - Until there is substantial improvement in labor markets
- **Low fed funds rate at least until:**
  - Unemployment  $< 6.5\%$  or
  - Inflation forecast  $> 2.5\%$
- **Highly accommodative policy even after the recovery strengthens**

# Alternative Policy Prescriptions

## Federal Funds Rate

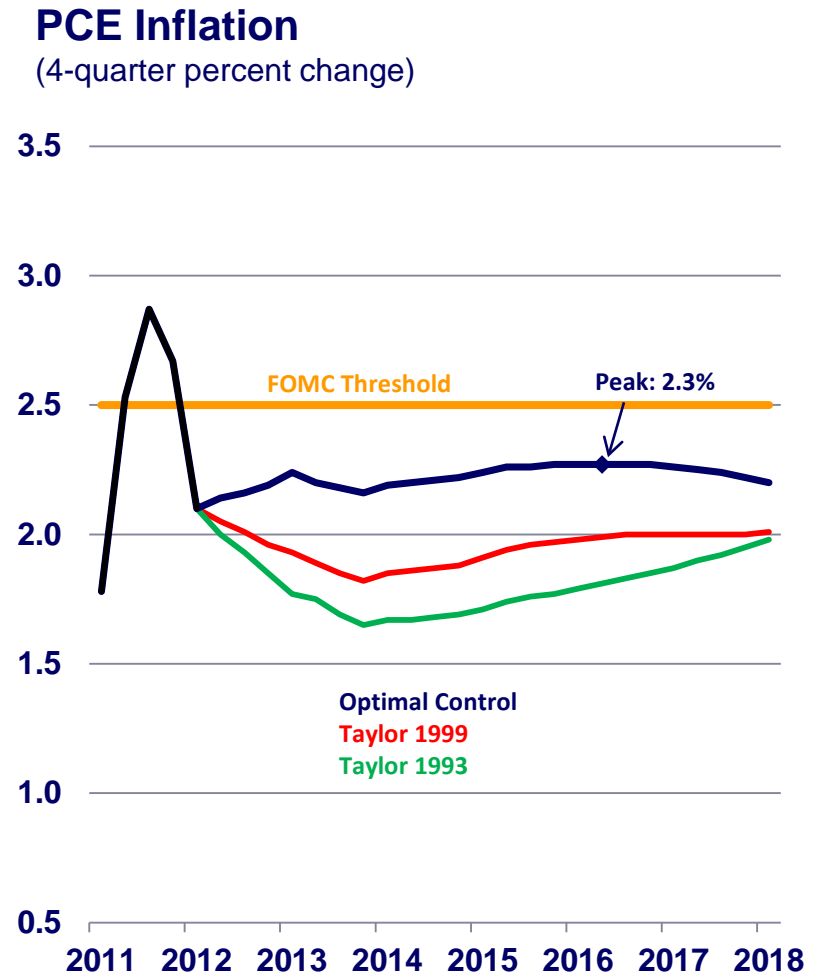
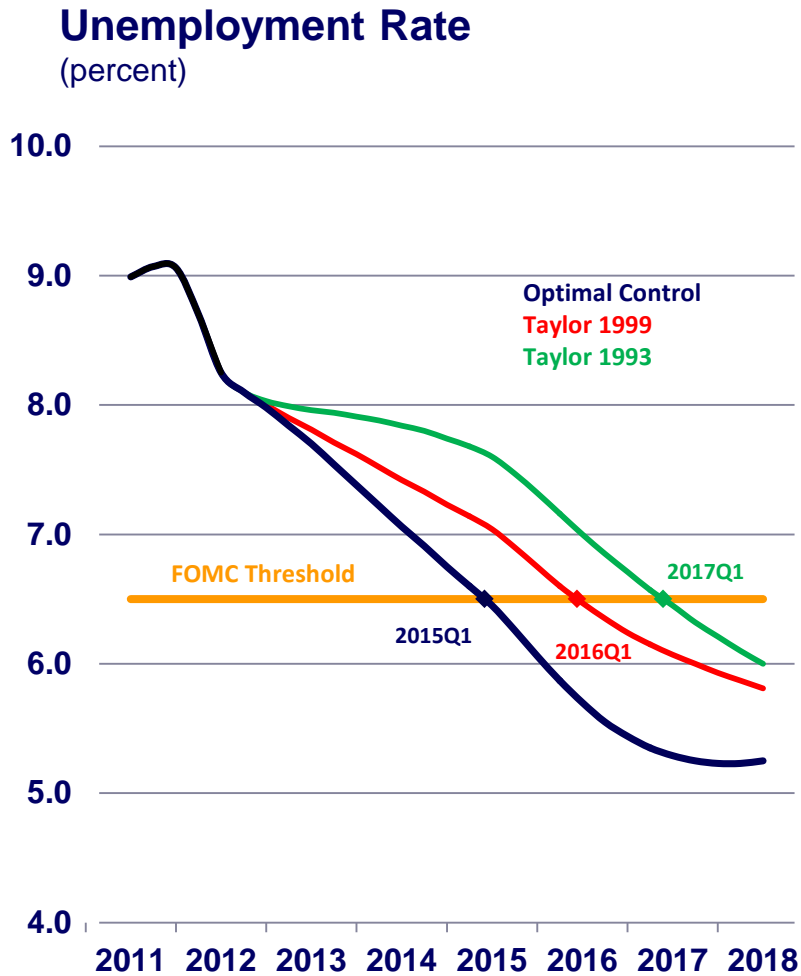
(percent)



Source: Janet L. Yellen, "Perspectives on Monetary Policy," Boston, June 6, 2012

# Progress toward the Dual Mandate

## Goals with Alternative Policies



Source: Janet L. Yellen, "Perspectives on Monetary Policy," Boston, June 6, 2012