



# One Equation to Understand the Current Monetary Policy Debate

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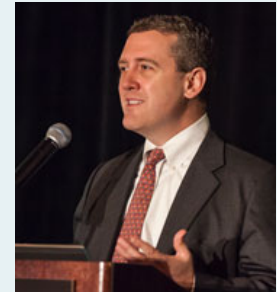
**October 24, 2016**

Speaking in Fayetteville, Ark., St. Louis Fed President James Bullard deconstructed a Taylor-type rule to help explain the current monetary policy debate. He also used this boiled-down equation to explain the St. Louis Fed's projected policy rate path of 0.63 percent over the forecast horizon. He noted that with unemployment and inflation near their long-run values, the recommended policy rate from a Taylor-type rule depends mostly on the real (inflation-adjusted) safe rate of return. Furthermore, he added that real safe rates of return are exceptionally low and are not expected to rise soon. This means, in turn, that the policy rate should be expected to remain exceptionally low over the forecast horizon, Bullard said. His presentation was to the Association for University Business and Economic Research.

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*"Rationally, let it be said in a whisper, experience is certainly worth more than theory."*  
Amerigo Vespucci

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