

Media Advisory (4/4/96)

In the St. Louis Fed *Review*: price levels and the Big Mac[®]; Are some agricultural banks too agricultural? Do high tax payments lower consumer spending? Are federal funds rate changes consistent with price stability?

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The January/February 1996 edition of *Review*, the Federal Reserve Bank of St. Louis' bimonthly journal of economic and business issues, features the following articles:

- **"For Here or To Go? Purchasing Power Parity and the Big Mac."** The economic theory of Purchasing Power Parity (PPP) states that price levels in different countries, as measured by a representative market basket of commodities, will be equalized by international trade. With a bit of whimsy, economists Michael R. Pakko and Patricia S. Pollard use the ingredients in the Big Mac[®] to explain the underlying premise of PPP and why it doesn't cut the mustard.

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- **"Are Some Agricultural Banks Too Agricultural?"** Agricultural banks have always been unique, especially in their financial performance, which has often exceeded that of nonagricultural banks. Economists Kevin L. Kliesen and R. Alton Gilbert examine current financial measures of some 3,000 agricultural banks. They find that a significant number are as vulnerable today as were those which failed in the crisis in the 1980s.

- **"The Tax Man Cometh: Consumer Spending and Tax Payments."** Do high tax payments cause consumers to lower their spending? Traditional economic models view consumer spending as a function of disposable income. In other words, any change in tax payments directly affects disposable personal income, resulting in changes in consumer expenditures. Economist Peter S. Yoo considers four episodes in which tax payments changed considerably. His analysis suggest that consumers react only somewhat to changes in tax liabilities.

- **"Are Federal Funds Rate Changes Consistent with Price Stability? Results from an Indicator Model."** Several central banks around the world have recently announced explicit targets for inflation and made price stability their overriding, long-term objective. Some observers have urged the Federal Reserve to do the same. But has recent Federal Reserve policy been markedly different from policies guided by inflation targets? Economists Michael J. Dueker and Andreas M. Fischer attempt to answer that question.

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