NEWS RELEASE

The Federal Reserve Bank of St. Louis
St. Louis   Little Rock   Louisville   Memphis

Media Advisory (4/17/97)   **Contact: Charles B. Henderson (314) 444-8311**

St. Louis Fed's *Review* Considers "Announcement Effect" on Federal Funds Rate Target and Measurement of Adjusted Monetary Base

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

• **"Does the Fed's New Policy of Immediate Disclosure Affect the Market?"** In the past, the Federal Reserve had argued that immediately disclosing a target for the federal funds rate would produce an "announcement effect" and roil financial markets. It ain't necessarily so, says Daniel L. Thornton, an economist with the Federal Reserve Bank of St. Louis. His findings reveal that there has always been an announcement effect and, if anything, financial markets' uncertainty has been reduced since the Federal Open Market Committee (FOMC) decided in February 1994 to announce its policy actions immediately.

• Proceedings from the St. Louis Fed's March 1996 symposium, "The Revised St. Louis Adjusted Monetary Base: New Measures In Old Theories," which brought together academic and Federal Reserve economists to evaluate the recent changes to the St. Louis adjusted monetary base:

"Measuring the Adjusted Monetary Base in an Era of Financial Change." The Federal Reserve Bank of St. Louis has published a measure of the adjusted monetary base since 1968.

(more)

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

In October 1996, the Bank began publishing a new measure recognizing the ways in which bank reserve demand has changed since 1980. The new measure of the monetary base includes all deposits held by domestic depository institutions at the Federal Reserve, including the deposits used to satisfy required clearing balance contracts. The authors, Richard G. Anderson, an assistant vice president and economist at the St. Louis Fed, and Robert H. Rasche, professor of economics at Michigan State University and a visiting scholar at the Bank, argue that depository institutions primarily hold deposits at Federal Reserve Banks to originate and absorb interbank payments, not to satisfy statutory reserve requirements. The new measure also includes a refined adjustment for the effects on reserve demand of changes since 1980 in statutory reserve requirement ratios. The adjustment is based on a comprehensive analysis using 15 years of weekly data on more than 10,000 depository institutions.

"The Sensitivity of Empirical Studies to Alternative Measures of the Monetary Base and Reserves." Michael J. Dueker, a senior economist at the Federal Reserve Bank of St. Louis, and Apostolos Serletis, a professor of economics at the University of Calgary, ask whether the new measure of the St. Louis adjusted monetary base is more consistently related to changes in economic activity, including inflation. Although their findings are mixed, some results suggest a stronger linkage between growth of the new adjusted monetary base and subsequent changes in the rate of inflation.

Results in both papers are discussed by a panel of prominent economists, including Edward J. Stevens of the Financial Services Research Group of the Federal Reserve Bank of Cleveland; Donald L. Kohn, director of the Division of Monetary Affairs of the Board of Governors of the

(more)

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis

Federal Reserve System; Ben S. Bernanke, professor of economics at Princeton University; and Bennett T. McCallum, professor economics at Carnegie Mellon University.

Subscriptions to ***Review*** are free and can be obtained by calling (314) 444-8809. The publication is also available on the Internet: http://www.stls.frb.org.

The Federal Reserve Bank of St. Louis has branches in Little Rock, Louisville and Memphis. It serves the Eighth Federal Reserve District, which includes all of Arkansas, eastern Missouri, southern Indiana, southern Illinois, western Kentucky, western Tennessee and northern Mississippi. In addition to serving as a bank for depository institutions and the U.S. government, each Reserve Bank supervises state-chartered member banks and bank holding companies, monitors economic conditions in the District and participates in formulating monetary policy.

###

Digitized for FRASER
https://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis