LECTURE 10

THE CONDUCT OF POSTWAR MONETARY POLICY
FEBRUARY 21, 2013

I. OVERVIEW
   A. Where we have been
   B. Where we are headed

II. DESCRIBING POLICY CHOICES WITH A MONETARY POLICY RULE
   A. Overview
   B. Taylor’s specification of a monetary policy rule
   C. Monetary policy rules in a variety of regimes
   D. Parameter estimates
      1. Taylor’s preferred coefficients
      2. Importance of real rates rising in response to inflation
   E. Parameter estimates from different sample periods
   F. Deducing policy mistakes using deviations from a Taylor Rule

III. ROLE OF IDEAS IN DETERMINING MONETARY POLICY ACTIONS AND OUTCOMES
   A. Overview
   B. Early Martin Era
      Key idea: Intuitive natural rate hypothesis
      Reflection of ideas in policy actions
   C. Late Martin and Early Burns
      Key idea: Exploitable inflation-output tradeoff
      Key idea: Unrealistically low estimate of the natural rate
      Reflection of ideas in policy actions
   D. Middle Burns and Miller
      Key idea: Inflation responds little to slack in the economy
      Reflection of ideas in policy actions
   E. Late Burns, Volcker, and Greenspan
      Key ideas: Slack matters and the natural rate is fairly high
      Reflection of ideas in policy actions
   F. Bernanke and the current FOMC
      Key ideas very similar to those of Volcker and Greenspan
      Reflection of ideas in policy actions
      Other FOMC members have different ideas