

The Comprehensive Essay Question

Due date: ~~Tuesday, December 4, at 8:00 am~~ **Wednesday, December 5, at 1:00 pm.**

Submit via bCourses, assignments tab. **No late submissions.**

10-11-12 pt font; double spaced; pages numbered; 1,000 words max.

Your name, SID, GSI's name, & word count on first page

Use "quote marks" as appropriate. Cite your sources.

Works cited page & any (optional) data charts not included in 1,000 word maximum.

Acceptable file types: .doc, .docx, .pdf, .rtf

You are an intern for a newly-elected Senator who has been appointed to the Senate Banking Committee. This committee confirms appointees to the Federal Reserve Board of Governors. There are currently 3 Board vacancies. The Senator-Elect wants you to prepare a briefing paper on monetary policy that can be used to prepare for questioning Board Chairman Powell or an appointee nominated by President Trump for one of the three Board vacancies.

The Senator-Elect is an educated person with some background knowledge of economics, but has been out of college for a few decades. You were hired for this internship because of the breadth and depth of your economic knowledge and your ability to write. You don't want to let the Senator-Elect down!

Here's your drafted outline. Most definitely, include at least the points noted below. You can include visual representations of data as appropriate (a figure can be worth a thousand words; Fred is a good source).

- Intro paragraph. Set the stage. This paragraph should tell the Senator-Elect the focus of the rest of the briefing paper.
- Inflation hawk or dove. Explain the dual mandate of the Fed and what it means to be a hawk or a dove. Give the Senator-Elect a sample question or two that could be asked in a hearing to determine whether Chairman Powell or a Board nominee is an inflation hawk or dove.
- Role of interest rates. The Senator-Elect needs to understand how changes in interest rates affect unemployment and inflation. This will be an important part of the briefing paper.
 - Start with the basics, explaining why higher interest rates slow economic growth, relative to the counterfactual.
 - Need to explain the concept of the counterfactual in this context!
 - Include some caveats – examples of circumstances under which the chain of events from Fed policy to economic growth might not unfold as expected.
- Connect economic growth to changes in unemployment and inflation. Why is there typically a tradeoff between unemployment and inflation?
 - Address the puzzle of 2012-2016 when falling unemployment didn't trigger rising inflation. What are the unanswered questions about the nature of the Phillips curve relationship? Offer the Senator-Elect a question to ask in a hearing to elicit the thoughts of the Chairman or a Board nominee.
 - Labor markets are part of the puzzle, so walk the Senator-Elect through an analysis of labor markets.
- Concluding statement: What are the key points the Senator-Elect should keep in mind when questioning Chairman Powell or a Board nominee?