

## The Comprehensive Essay Question

Due date: Wednesday, December 11, at 8:00 am.

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

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

Congratulations! You will be an intern at the SF Fed, working for President Mary C. Daly. (She's awesome! Check out her life story at <https://www.cnn.com/2019/11/16/success/mary-daly-federal-reserve/index.html> and elsewhere.) She will be giving a talk before a group of AP Econ high school students from the Bay Area and she's asked you to prepare a first draft of her comments. She's provided you with an outline. You and she agree that AP econ students are probably familiar with the vocab (so there's no need to define each term) but are not necessarily familiar with the economic arguments. She says including graphs from Fred where appropriate would be fine.

- The general topic of her talk will be the next U.S. recession and why the Fed may be constrained in fighting it.
- First, Pres. Daly wants a clear discussion of the factors that may contribute to the next recession. One concern is the weakness of investment spending, which could be related to heightened uncertainty as well as depressed future forecasts. The other concern is the weakness of net exports, tied to the trade war, U.S. tariffs, and retaliatory tariffs put in place by other countries.
- Pres. Daly suggests using a micro example to illustrate how U.S. tariffs might impact consumer prices of imported goods, and then linking that to inflation as measured by the CPI.
- Remind the audience that the Fed faces a dual mandate (that's probably some vocab that is worth defining). In this section, Pres. Daly wants to first discuss how the Fed typically responds to a recession. What monetary policy does the Fed typically pursue, and how would it be implemented?
- After discussing the typical response, Pres. Daly wants to spend time discussing the challenges the Fed will face in fighting the next recession. Her initial thoughts are to include at least the following
  - Will typical Fed policy be effective in increasing aggregate demand, given the likely factors contributing to the next recession?
  - The federal funds rate target is currently 1.50-1.75 percent and the IOER is 1.55 percent. What is the "zero lower bound" (ZLB) and why does the ZLB create a challenge for Fed policy? If the Fed hits the ZLB during a recession, what options remain for fighting a recession?
  - The Phillips curve relationship between unemployment & inflation may (or may not) have changed over the last two decades. In what ways, if any, is this relevant to the Fed's ability to fight the next recession?
- Finally, not for her speech but because Pres. Daly is a great mentor, she is interested in your personal thoughts. How dovish do you think the Fed should be in fighting the next recession? Why?