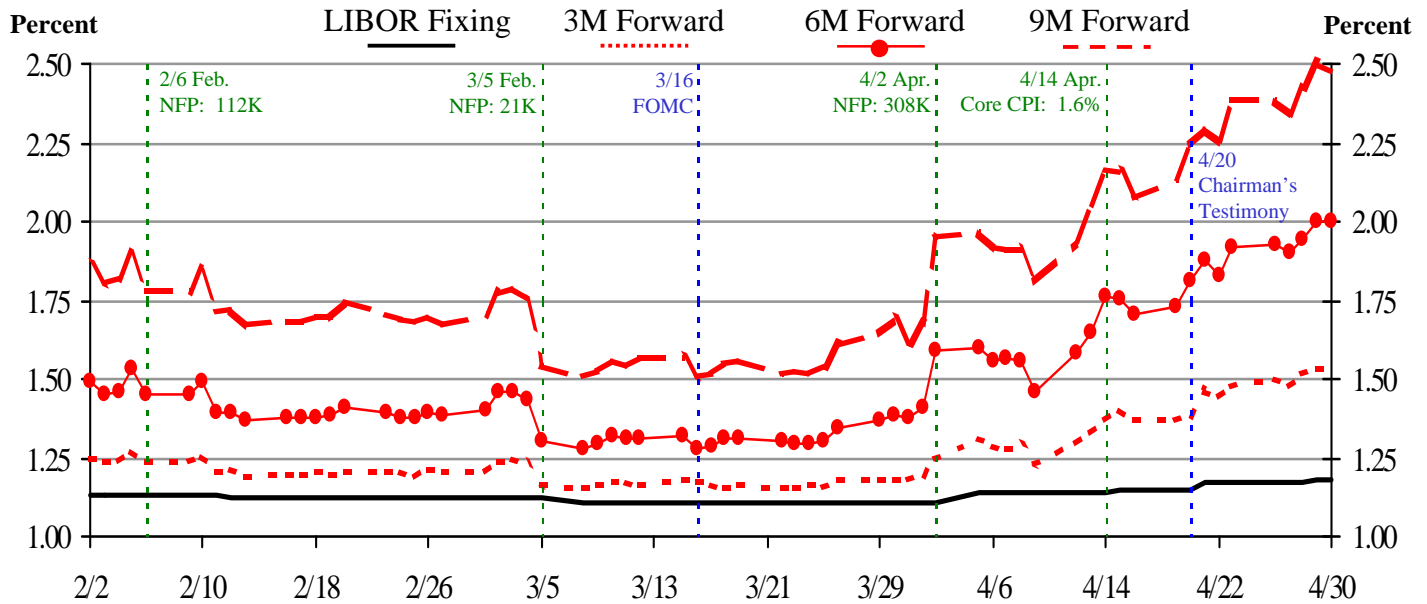


**Appendix 1: Materials used by Mr. Kos**

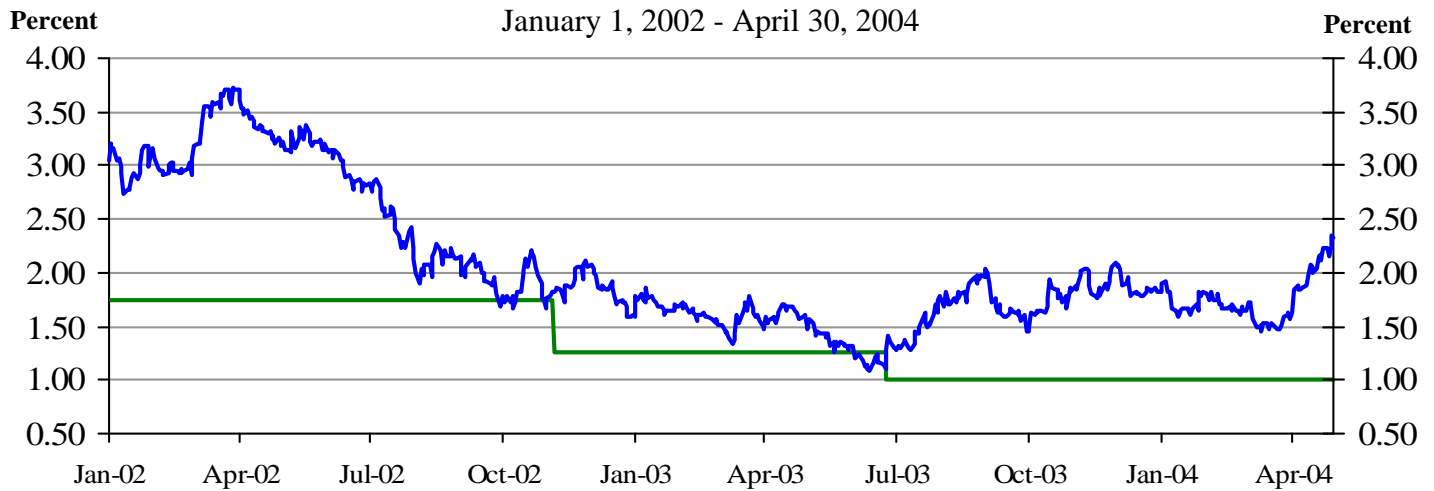
### Current U.S. 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

February 2, 2003 - April 30, 2004



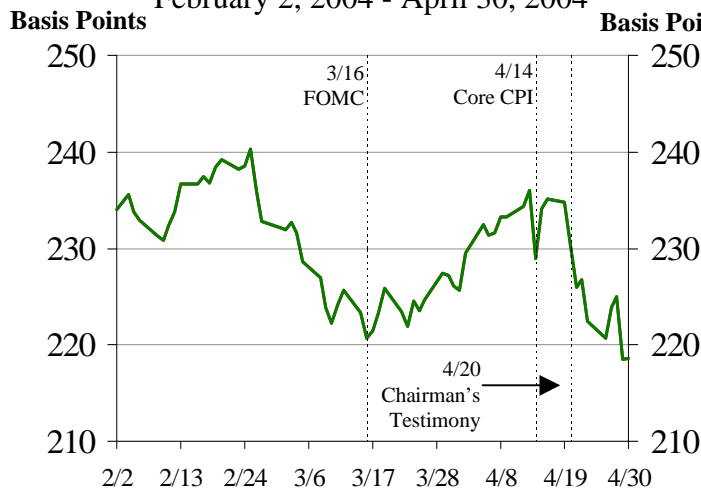
### Target Federal Funds Rate and Treasury 2-Year Note

January 1, 2002 - April 30, 2004



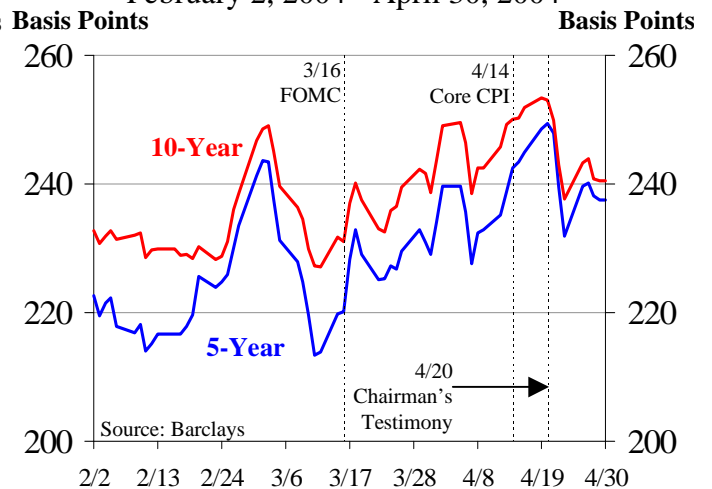
### Yield Spread between 2- and 10-Year Notes

February 2, 2004 - April 30, 2004

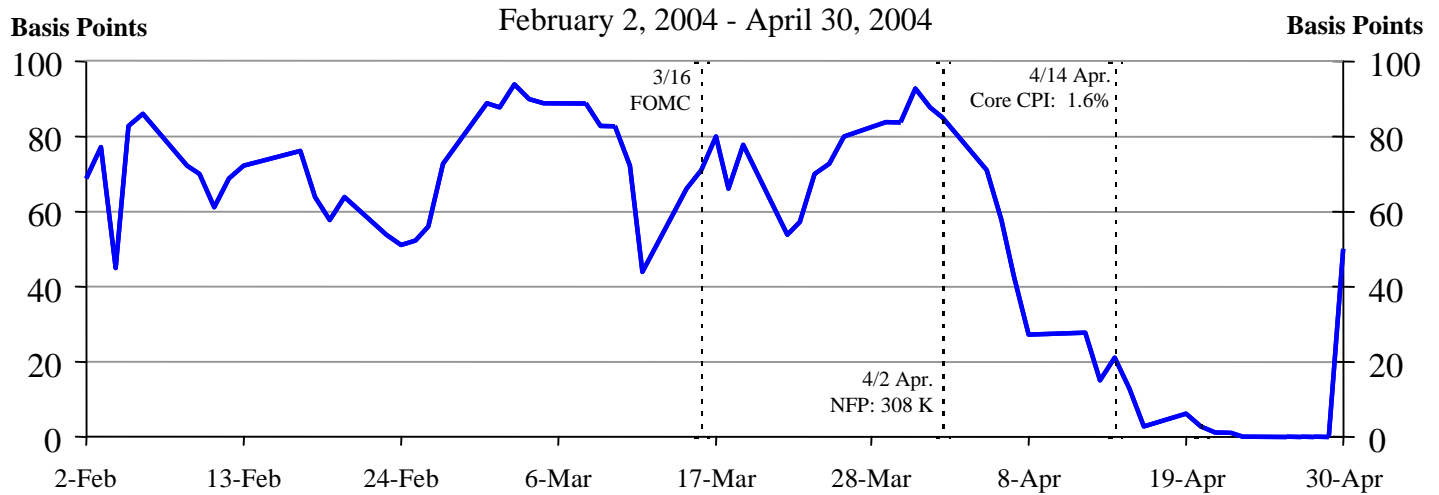


### Breakeven Inflation Rates on TIPS

February 2, 2004 - April 30, 2004

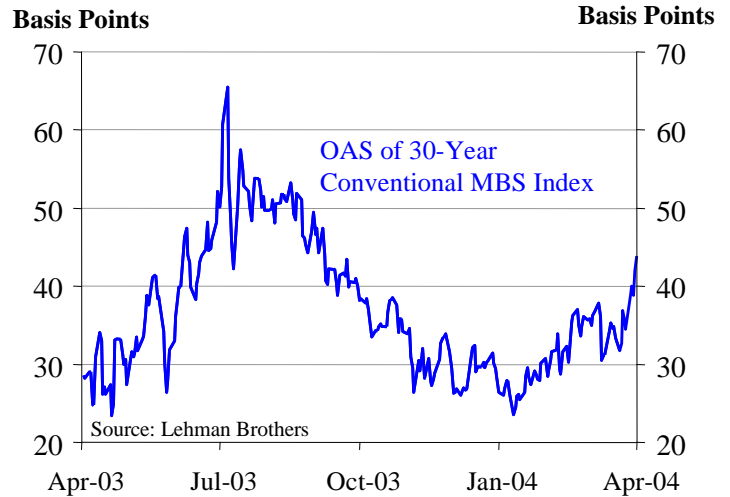
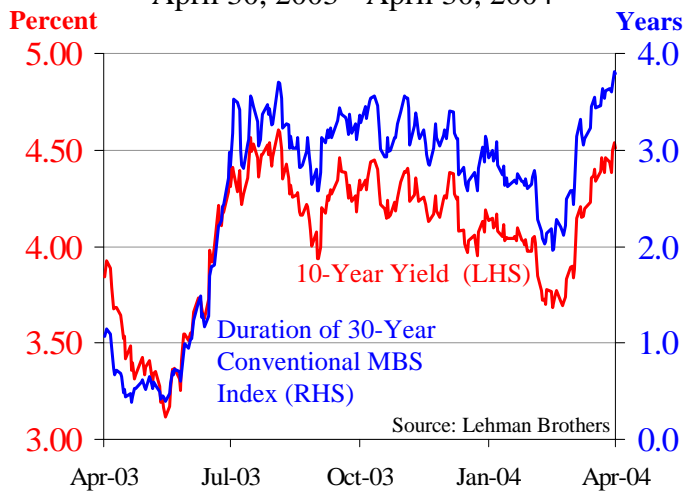


### Overnight Repo Rate for 2-Year Treasury Note (on-the-run)



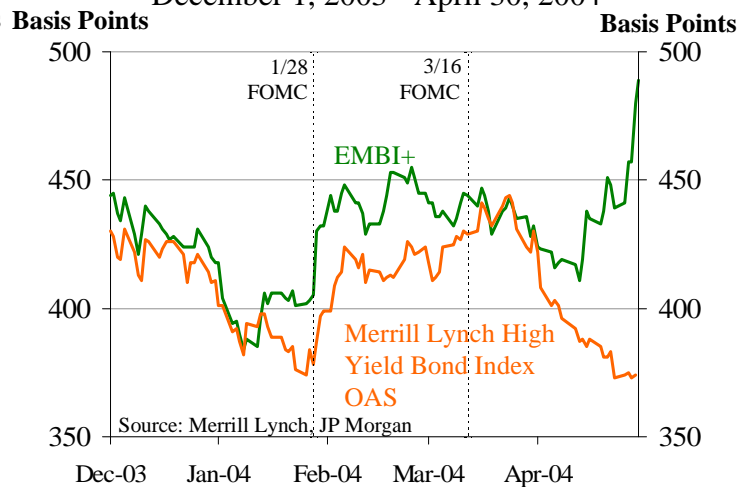
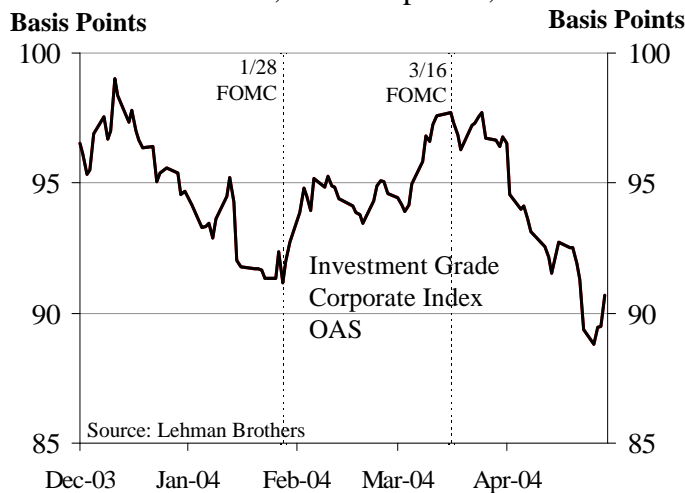
### 10-Year Treasury Yield and Mortgage Market Duration April 30, 2003 - April 30, 2004

### Mortgage Spread to Treasuries April 30, 2003 - April 30, 2004

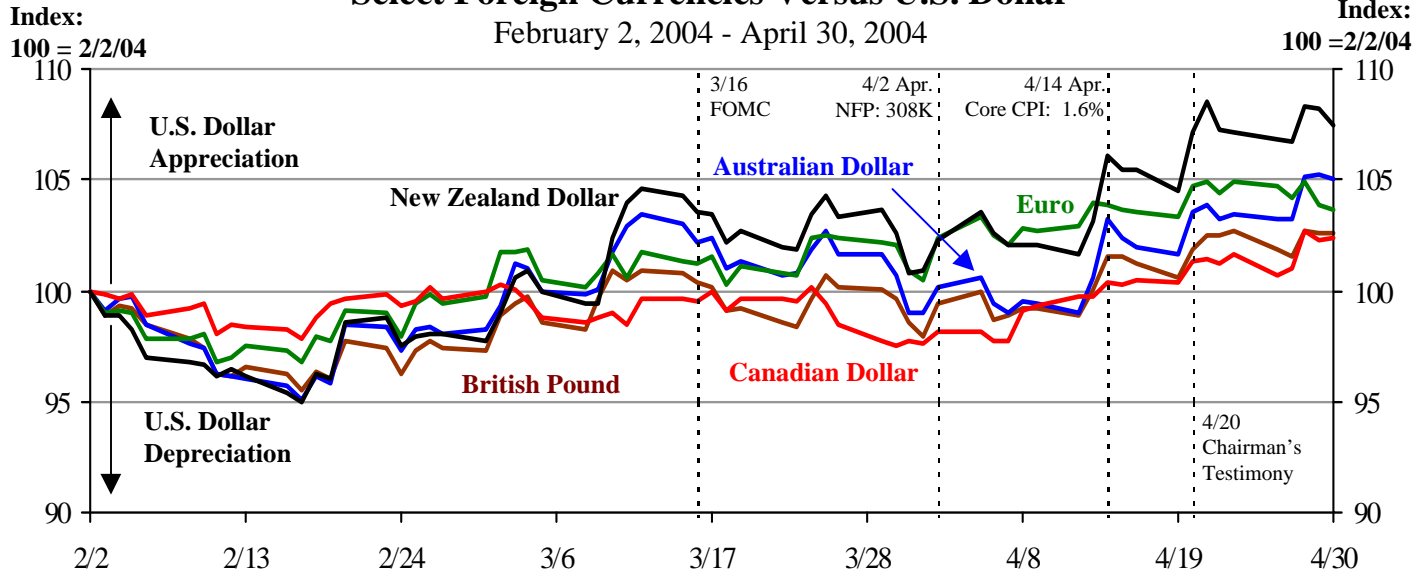


### Investment Grade Corporate Debt Spread December 1, 2003 - April 30, 2004

### High Yield and EMBI+ Spreads December 1, 2003 - April 30, 2004

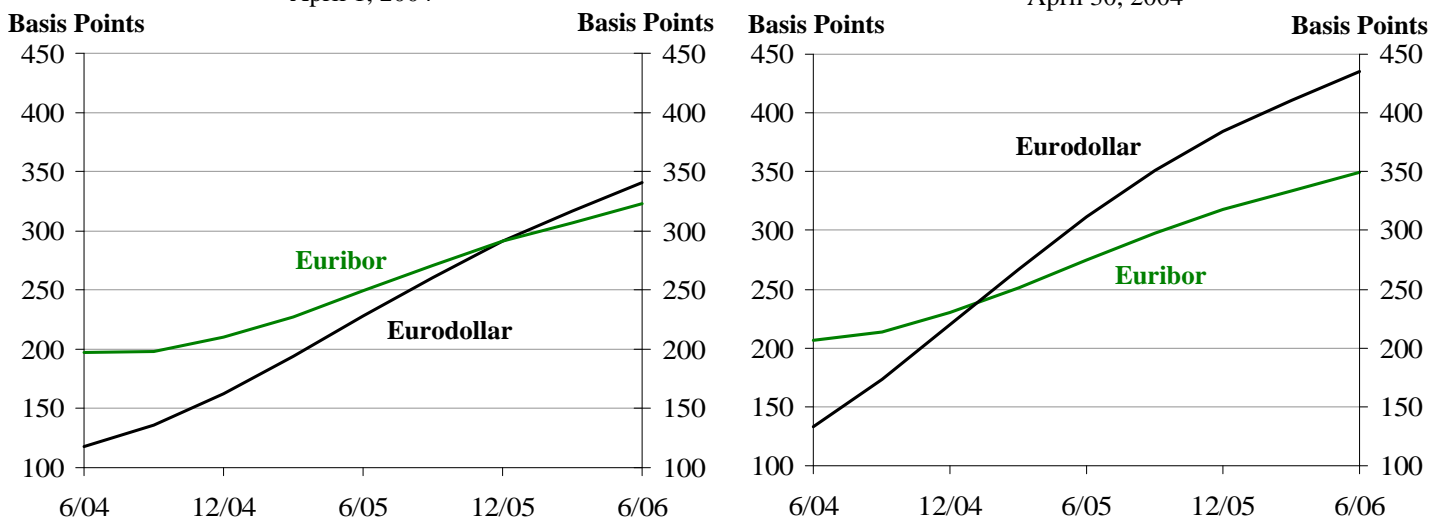


### Select Foreign Currencies Versus U.S. Dollar



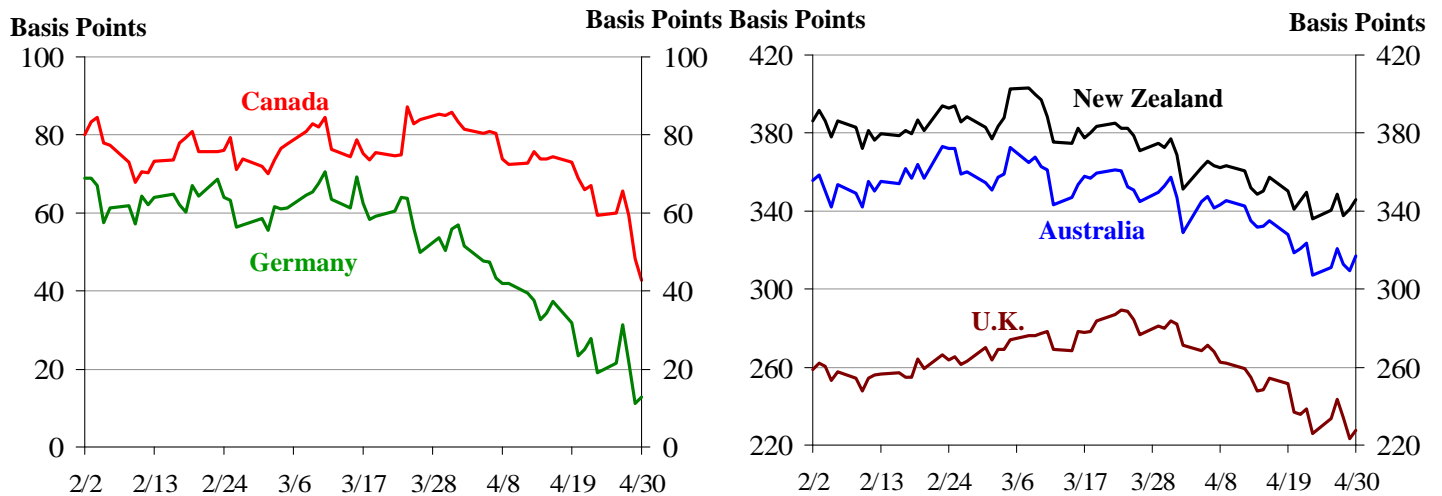
Interest Rates Implied by Eurodollar and Euribor Futures Contracts  
April 1, 2004

Interest Rates Implied by Eurodollar and Euribor Futures Contracts  
April 30, 2004



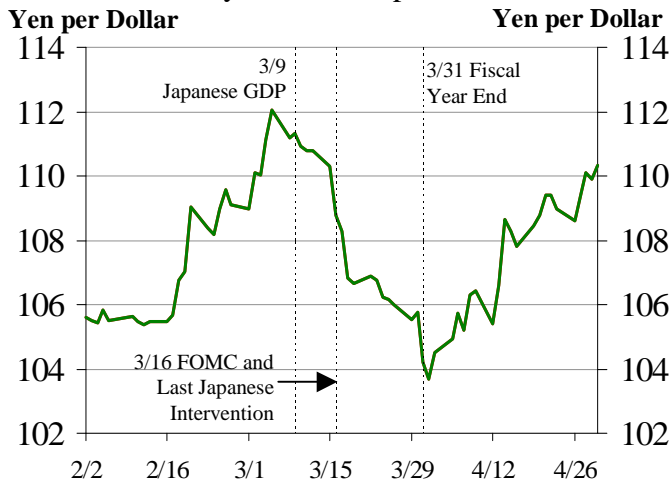
### Interest Rate Differentials: Select 2-Year Gov. Yields Less U.S. Treasuries

February 2, 2004 - April 30, 2004



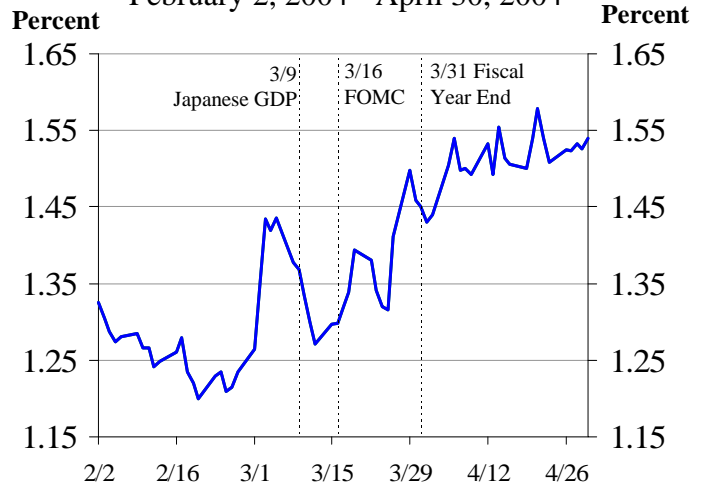
### U.S. Dollar Against Japanese Yen

February 2, 2004 - April 30, 2004



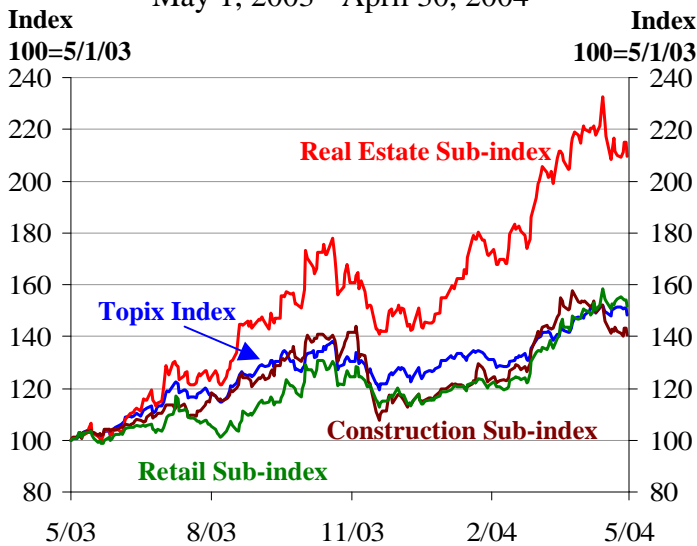
### 10-Year JGB Yield

February 2, 2004 - April 30, 2004



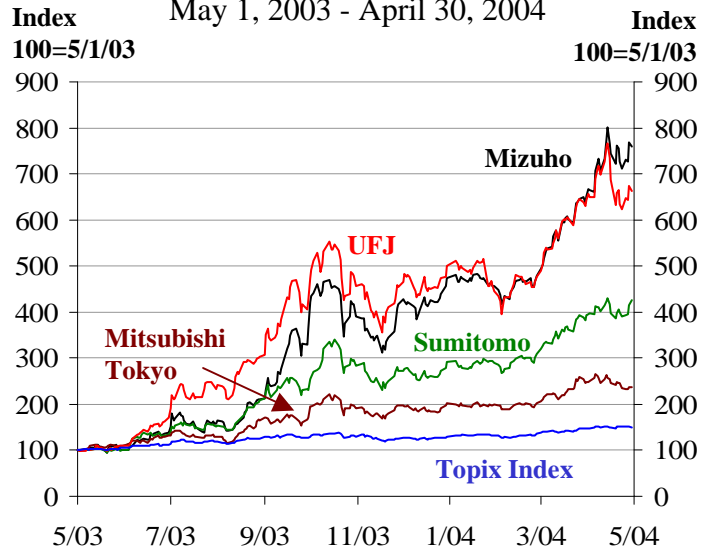
### Select Japanese Equity Sub-Indices

May 1, 2003 - April 30, 2004



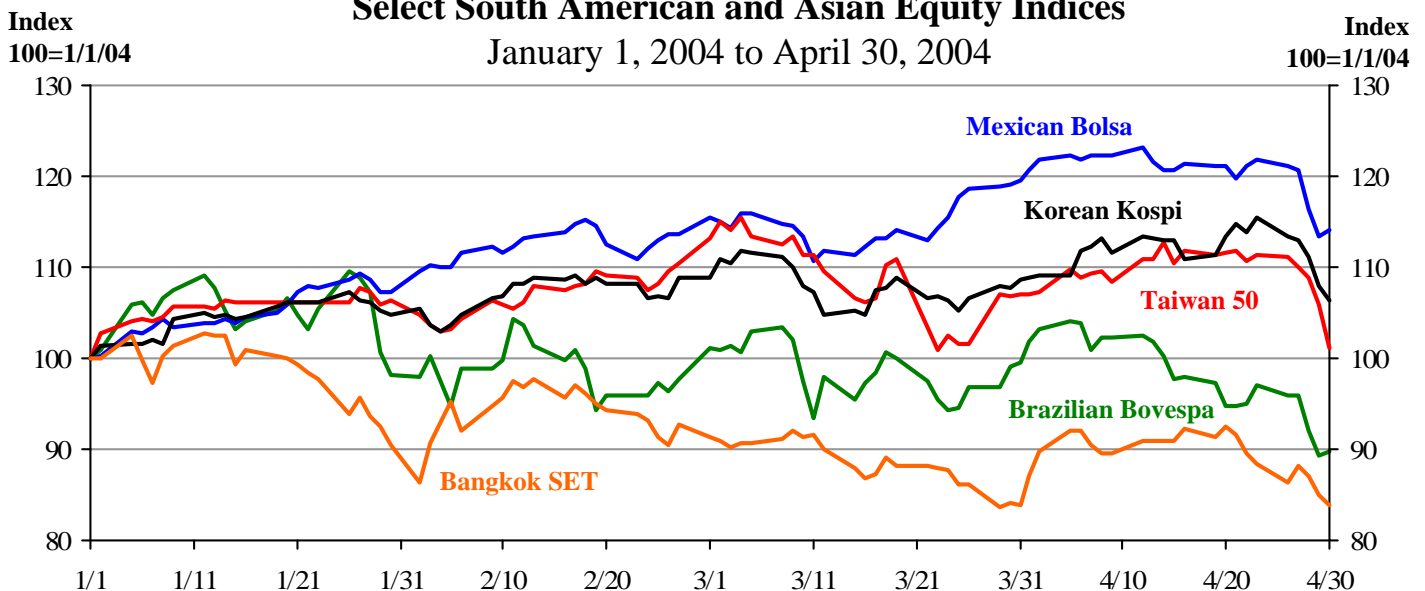
### Large Japanese Bank Stocks

May 1, 2003 - April 30, 2004



### Select South American and Asian Equity Indices

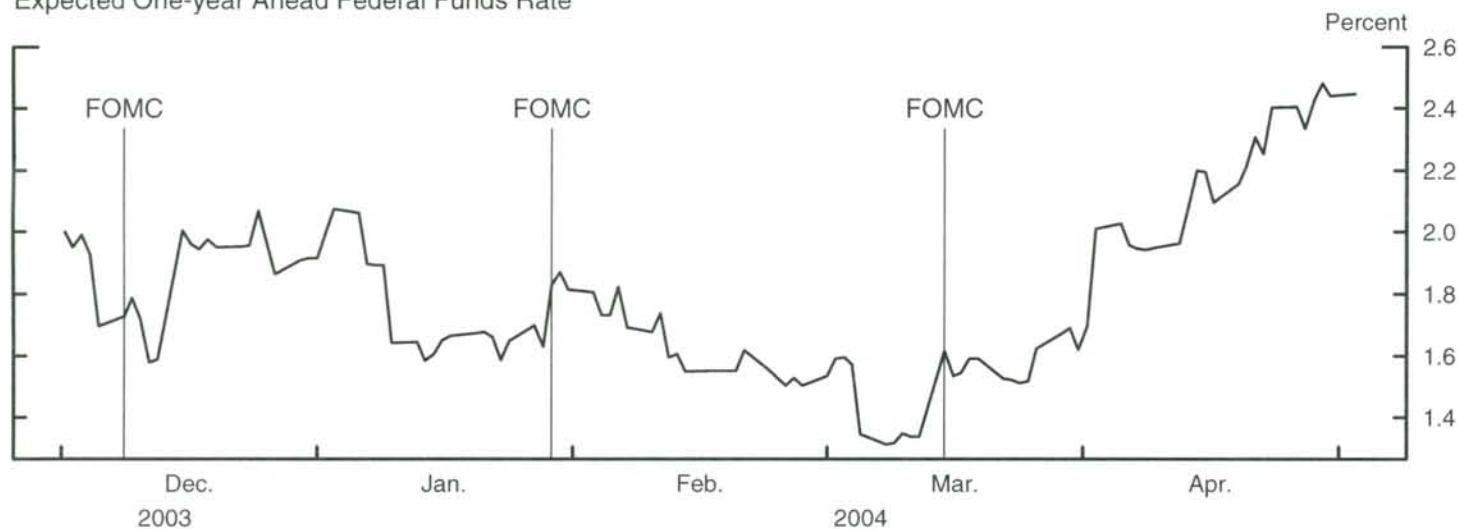
January 1, 2004 to April 30, 2004



**Appendix 2: Materials used by Mr. Reinhart**

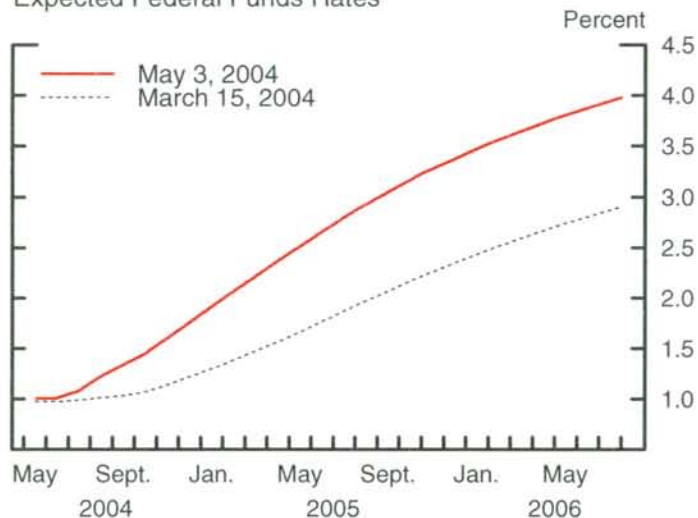
Exhibit 1  
Financial Market Conditions

Expected One-year Ahead Federal Funds Rate\*



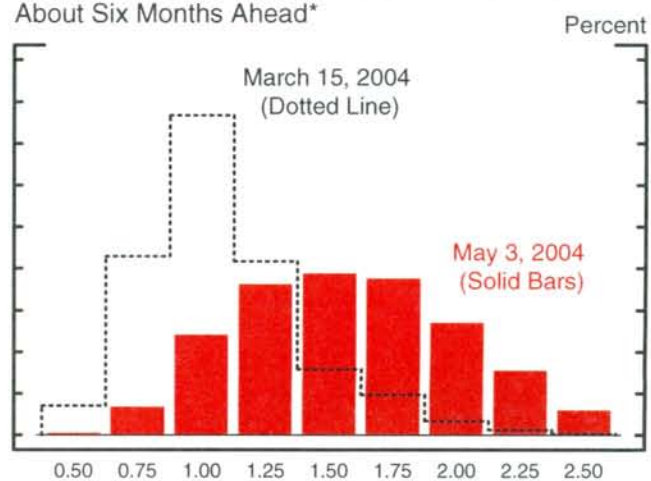
\*Estimate based on one-year ahead eurodollar futures rates adjusted for term premiums.

Expected Federal Funds Rates\*



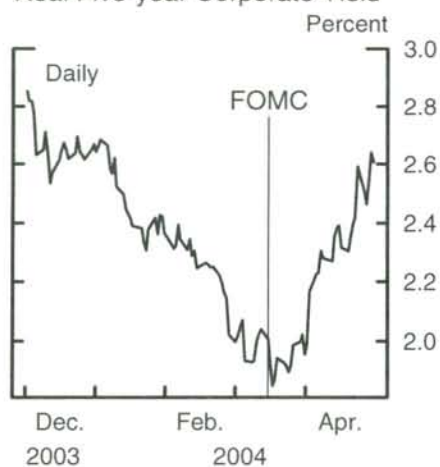
\*Estimates from federal funds and eurodollar futures rates.

Implied Distribution of the Federal Funds Rate About Six Months Ahead\*



\*Based on the distribution of the three-month eurodollar rate five months ahead (adjusted for a term premium), as implied by options on eurodollar futures contracts.

Real Five-year Corporate Yield\*



\*Nominal five-year investment and speculative-grade yields weighted by capital expenditure shares less the five-year inflation compensation from TIIS.

Major Currencies Index



Wilshire 5000 Index





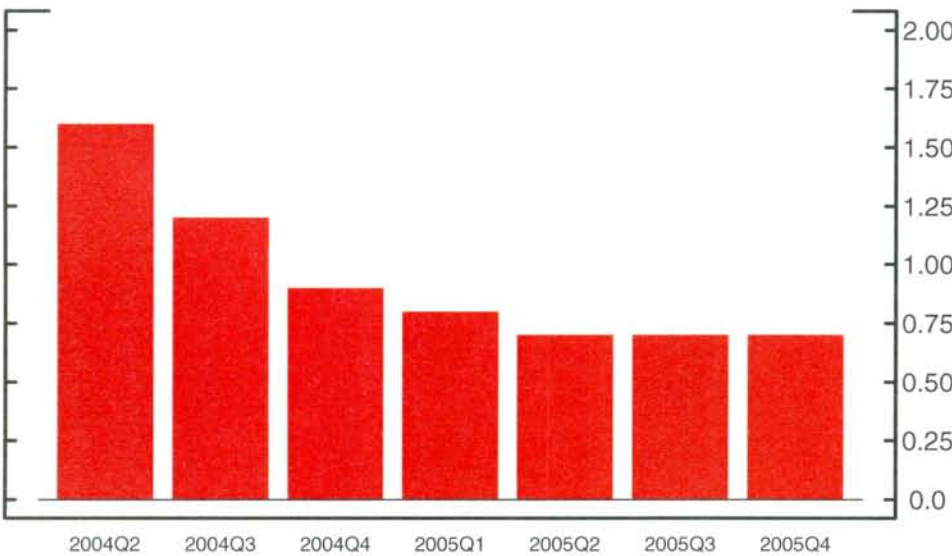
**Exhibit 2**

Alternatives in the Bluebook

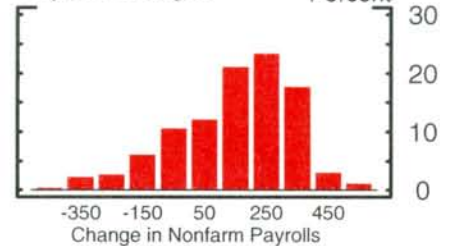
- A --Worry that market participants have built in excessively prompt and aggressive tightening  
--The associated firming in financial conditions threatens outcomes in 2005
  
- B --View near-term futures rates as an accurate characterization of policy expectations  
--Desire to emphasize that policy tightening will be gradual to limit the chance of an overreaction
  
- C --Interpret the tightening of financial conditions as the initial signs of building pressures on inflation or increases in equilibrium real interest rates  
--Want to be seen as preemptive against those potential pressures

**The Case for Alternative A**

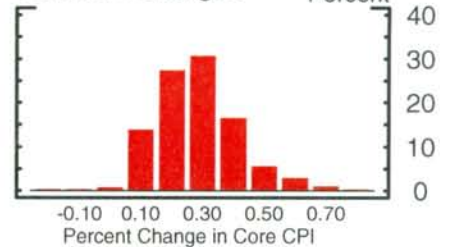
Output Gap



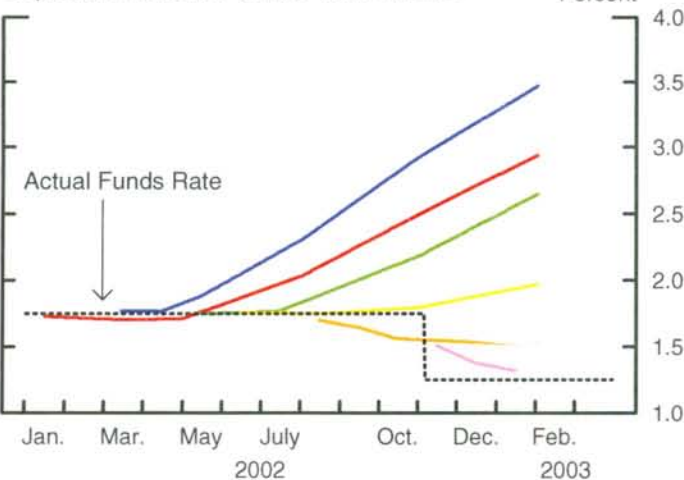
Histogram of Monthly Nonfarm Payroll Changes



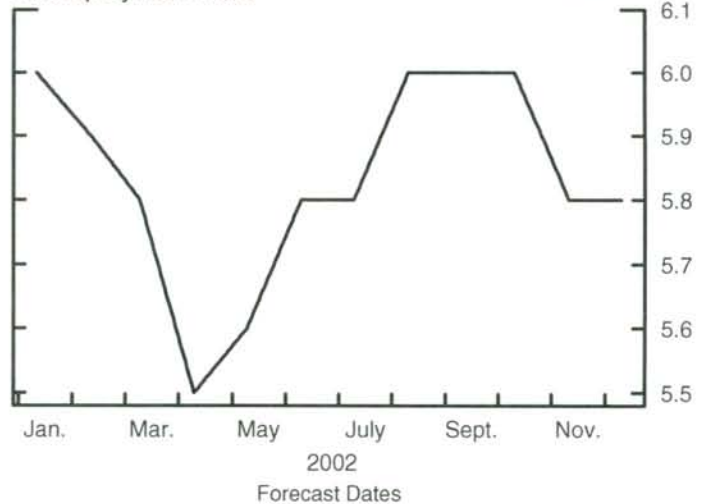
Histogram of Monthly Core CPI Changes



Expected Federal Funds Paths in 2002\*



Evolution of Blue Chip Forecasts of 2002Q4 Unemployment Rate

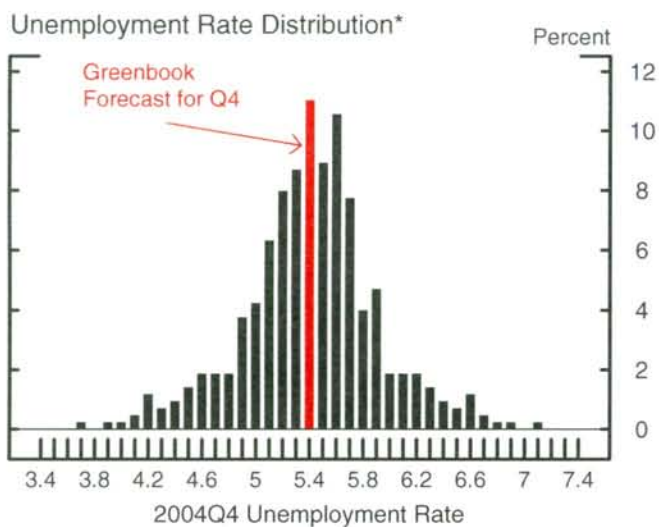


\*Estimated from federal funds and eurodollar futures, with an allowance for term premia and other adjustments.

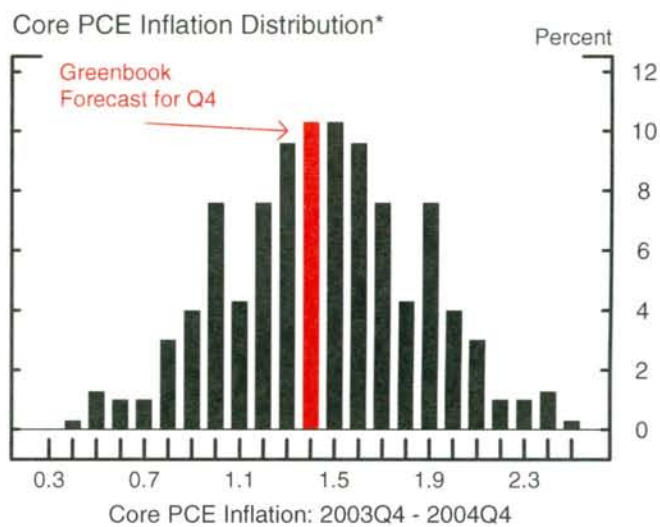


**Exhibit 3  
The Case for Alternative B**

- Find the staff forecast plausible and acceptable
- Desire to regain flexibility
- Strengthen the perception that policy can likely be firmed gradually
- View the cost of delaying tightening as small relative to the benefit



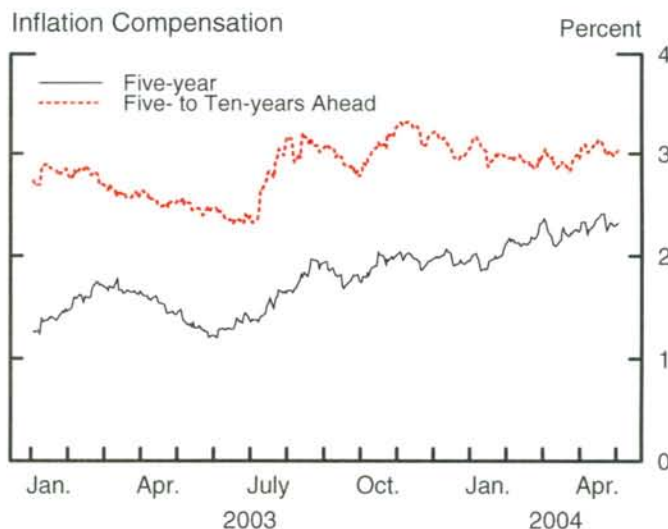
\*Calculated using historical Greenbook forecast errors.



\*Calculated using historical Greenbook forecast errors.

**Expected Cumulative First-year Tightening**

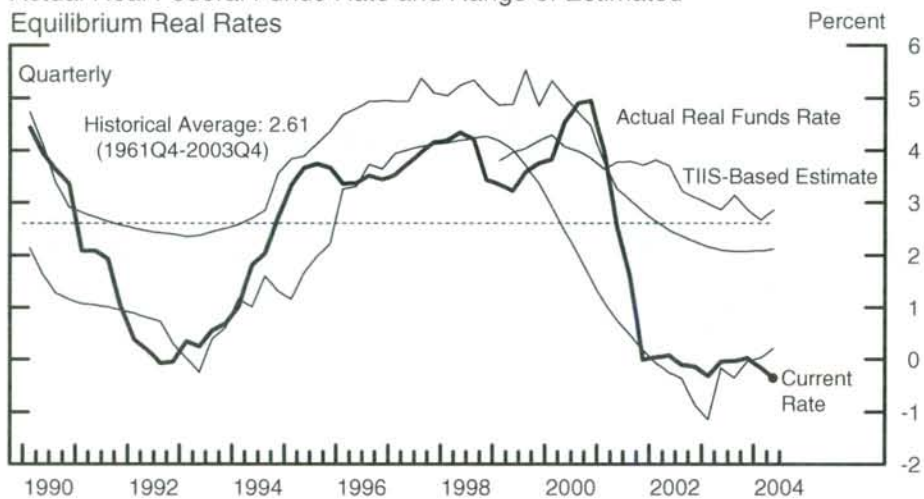
	Basis Points
1. Greenbook	100
2. Federal Funds Futures	195
<i>Memo</i>	
3. Average of Actual First-year Tightening in 1988, 1994, 1999 Episodes	267



### Exhibit 4 The Case for Alternative C

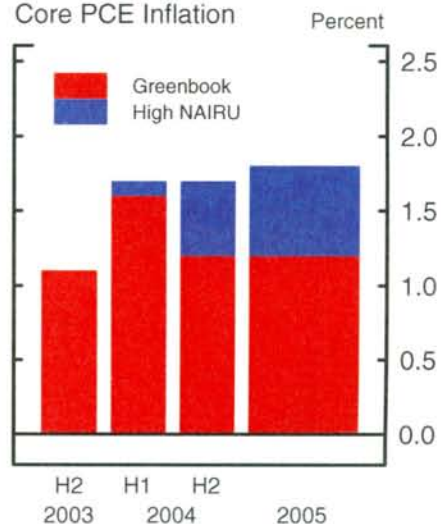
- Pricing power seems to have returned
- Policy is quite accommodative
- Not convinced that the financial market turbulence of 1994 will repeat itself

Actual Real Federal Funds Rate and Range of Estimated Equilibrium Real Rates

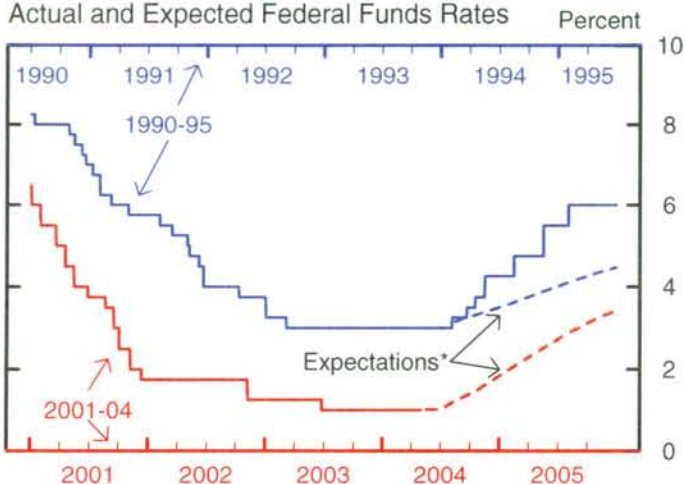


Note: The shaded range represents the maximum and the minimum values each quarter of four estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ a four-quarter moving average of core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2004Q1 and 2004Q2.

Core PCE Inflation

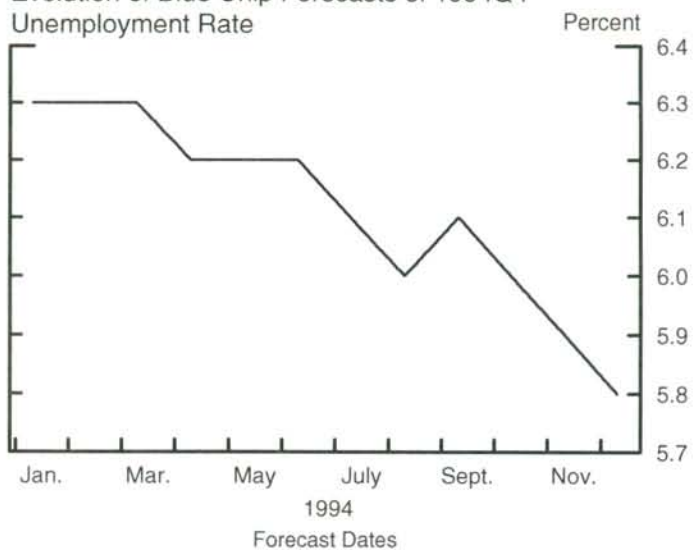


Actual and Expected Federal Funds Rates



\*Expectations implied by federal funds and eurodollar futures as of Feb. 3, 1994 and May 3, 2004.

Evolution of Blue Chip Forecasts of 1994Q4 Unemployment Rate



**Table 1: FOMC Statement Alternatives for the May Bluebook**

	March FOMC	Alternative A	Alternative B	Alternative C
<b>Policy Decision</b>	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 1 percent.	Unchanged	Unchanged	The Federal Open Market Committee decided today to raise its target for the federal funds rate to 1-1/4 percent.
<b>Rationale</b>	2. The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity.	Unchanged	Unchanged	The Committee continues to believe that robust underlying growth in productivity is providing important ongoing support to economic activity.
	3. The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid pace. Although job losses have slowed, new hiring has lagged.	The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid rate and hiring appears to have picked up.	The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid rate and hiring appears to have picked up.	The evidence accumulated over the intermeeting period indicates that output is continuing to expand at a solid rate and hiring appears to have picked up.
	4. Increases in core consumer prices are muted and expected to remain low.	Although incoming inflation data have moved somewhat higher, core inflation is expected to remain low.	<b>Although incoming inflation data have moved somewhat higher, long-term inflation expectations appear to have remained well-contained.</b>	<b>Long-term inflation expectations appear to have remained well-contained, although incoming inflation data have moved somewhat higher.</b>
	5. [None]	[None]	[None]	Against this backdrop, the Committee felt that some reduction in the degree of monetary accommodation was desirable to promote price stability and thus help sustain the economic expansion.
<b>Assessment of Risks</b>	6. The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal.	Unchanged	Unchanged	With this policy action, the Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal.
	7. The probability of an unwelcome fall in inflation has diminished in recent months and now appears almost equal to that of a rise in inflation.	<b>Similarly, the risks to the goal of price stability have moved into balance.</b>	<b>Similarly, the risks to the goal of price stability have moved into balance.</b>	<b>Similarly, the risks to the goal of price stability have moved into balance.</b>
	8. With inflation quite low and resource use slack, the Committee believes that it can be patient in removing its policy accommodation.	Nonetheless, with inflation low and resource use slack, the Committee believes that it can be patient in removing its policy accommodation.	<b>At this juncture, with inflation low and resource use slack, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.</b>	Even following today's action, the Committee judges that the stance of policy is quite accommodative. However, <b>with inflation low and resource use slack, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured.</b>