

THE FEDERAL RESERVE SYSTEM

Date: January 19, 2018
To: Federal Open Market Committee
From: Daniel Sullivan, Ellis Tallman, and William Wascher
Subject: Background Papers Regarding Inflation Dynamics

Attached are the three memos that will serve as the basis for the staff presentations during the Committee's special topic discussion of inflation dynamics at the upcoming meeting:

1. "Explanations for Recent Low Inflation," July 10, 2017¹
2. "Inflation, Trends, and Long-Run Expectations: Perspectives from Forecasting Research," January 18, 2018
3. "What's Up with Inflation?," January 18, 2018

Following the staff presentations and Q&A, there will be an opportunity for participants to comment on inflation dynamics (not a full go-round). If you would like to comment, it would be helpful if you could address the questions on the following page.

¹ Previously circulated to the Committee on July 11, 2017.

Questions Regarding Inflation Dynamics

1. Do you subscribe to a Phillips Curve type of inflation framework? Why or why not?
 - a. If the answer to (1) is “yes,” then why do you think inflation has not increased in recent quarters?
 - b. If the answer to (1) is “no,” then what inflation framework do you use for monetary policy purposes? How does monetary policy influence inflation in this framework? Does the framework better explain recent inflation data?

2. In your view, what role do short-run and long-run inflation expectations play in the wage and price setting process? How are those expectations formed, and how does monetary policy influence them? What is your current assessment of inflation expectations?