Appendix 1: Materials used by Mr. Kos
Current 3-Month Deposit Rates and Rates
Implied by Traded Forward Rate Agreements
December 2, 2002 to March 17, 2003

United States and Euro-area

Japanese Government Yield Curves
2-Year Swap Rates and Policy Rates for Selected Currencies
December 2, 2002 to March 17, 2003

U.S.

2-Year Swap Rate
Fed Funds Target Rate

U.K.

2-Year Swap Rate
BoE Repo Rate

Euro-Area

2-Year Swap Rate
ECB Minimum Refi Bid Rate

Australia

2-Year Swap Rate
RBA Cash Target Rate

Canada

2-Year Swap Rate
BoC Bank Rate
**Euro-Dollar Exchange Rate**
December 2, 2002 to March 17, 2003

**Dollar-Yen Exchange Rate**
December 2, 2002 to March 17, 2003

**The Dollar Versus Other Foreign Currencies**
December 2, 2002 to March 17, 2003
U.S. Investment Grade Corporate Option-Adjusted Spreads
September 3, 2002 to March 14, 2003

EMBI+ Sovereign Debt and U.S. High Yield Corporate Spreads
September 3, 2002 to March 14, 2003

Short and Intermediate Swaption Volatility Indices
January 2, 2002 to March 14, 2003

MBS Option-Adjusted Duration Versus 10-Year U.S. Treasury Yield
January 2, 2002 to March 14, 2003
Appendix 2: Materials used by Mr. Reinhart
Chart 1

Policy Expectations

Expected Federal Funds Rates*

- March 18, 2003, 10:00 AM
- January 28, 2003

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

Expected Balance of Risks*
(Percent of Respondents)

<table>
<thead>
<tr>
<th></th>
<th>March</th>
<th>May</th>
<th>June</th>
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</thead>
<tbody>
<tr>
<td>Weakness</td>
<td>63</td>
<td>58</td>
<td>56</td>
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<tr>
<td>Neutral</td>
<td>37</td>
<td>42</td>
<td>42</td>
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<tr>
<td>Inflation</td>
<td>0</td>
<td>0</td>
<td>2</td>
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</table>

*From March 14, 2003 Money Market Services survey.

Percent Expecting Balance Toward Weakness at March Meeting*

*Responses from Money Market Services surveys.

Implied Distribution of the Federal Funds Rate Derived from Options Prices*

*Calculated from 150-day constant maturity eurodollar options.
Chart 2

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 four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2003Q1.

Long-Run Inflation Expectations

*The inflation rate that equalizes the price of the January 2012 TIIS and the value of a portfolio of nominal securities with the same payments.
Chart 3

Response of Two-Year Treasury

Employment Report
Durable Goods

Basis Points

Response of Ten-Year Treasury

Employment Report
Durable Goods

Basis Points

Due to Data Releases

<table>
<thead>
<tr>
<th>Basis Points</th>
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</thead>
<tbody>
<tr>
<td>Two-Year</td>
</tr>
<tr>
<td>Ten-Year</td>
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</tbody>
</table>

Changes from 1/28/03 to 3/17/03

<table>
<thead>
<tr>
<th>Basis Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-Year</td>
</tr>
<tr>
<td>Ten-Year</td>
</tr>
</tbody>
</table>

Spreads of Selected Private Long-Term Yields

Basis points

Note: Spreads measured over ten-year Treasury.

High-Yield Debt Spreads

Basis Points

Note: Spreads measured over ten-year Treasury. Source: Merrill Lynch.

One-year Swap Rate Implied Volatilities

Percent

Crude Oil Implied Volatility

Percent

Source: Merrill Lynch.
Retain a Balanced Risks Assessment

- War worries will constitute a significant portion of the uncertainty.
- Economy is fundamentally sound.
- Change would convey more conviction to market participants than the committee actually had.

Shift to a Balance Weighted Toward Economic Weakness

- More weight given to:
  - Downbeat economic data of late.
  - Forecast that inflation would move lower from an already low level.
  - Best matches investor expectations.

Frank Knight on Uncertainty

- ...we can only appeal to the law of large numbers to distribute the losses and make them calculable...in so far as they repeat themselves.
- ...The conception of an objectively measurable probability or chance is simply inapplicable.
- ...The fundamental uncertainties of economic life are the errors in predicting the future and in making present adjustments to fit future conditions.

An Alternative Strategy

- Defer announcing an assessment of risks.
- Include a promise to the public of heightened surveillance.
- Be willing to convene a conference call before the next meeting if events offer some clarity of direction.