Appendix 1: Materials used by Mr. Kos
Implied Rates on Eurodollar Futures Contracts
February 15, 2005 – April 29, 2005

Yield Spread Between 2-Year Treasury and Target Fed Funds Rate
June 1, 2004 – April 29, 2005

10-Year Treasury Yield Change Since Start of Fed Tightenings

2/16 Chairman’s Senate Testimony
3/22 FOMC +25 bps
4/12 March Retail Sales +0.3%
4/28 Q1 GDP 3.1%

3/22 FOMC +25bps

1994-95
1999-00
2004-05
### 5-Year Credit Default Swaps
January 1, 2004 – April 29, 2005

- Basis Points
- Source: Merrill Lynch

### Auto and High Yield Index Spreads
January 1, 2004 – April 29, 2005

- Basis Points
- Source: Merrill Lynch

### Weekly High Yield Issuance

- $ Millions
- Source: Reuters

### Composition of Lehman Brothers High Yield Index if GM Were Downgraded

- % of Index
- Source: The Yield Book, Lehman Brothers
Implied Volatility of the S&P500
January 1, 2004 – April 29, 2005

Implied Swaption Volatility
January 1, 2004 – April 29, 2005

Implied Volatility of Major Currency Pairs
January 1, 2004 – April 29, 2005

VIX Index of Implied Volatility on S&P500

1-Month Volatility on 2-Year Swaption

1-Month Volatility on 10-Year Swaption

1-Month Implied Volatility in Euro-Dollar

1-Month Implied Volatility in Dollar-Yen
Appendix 2: Materials used by Mr. Reinhart
Policy Expectations and Financial Conditions

Desk Survey of Primary Dealers

- Quarter-point tightening fully anticipated.
- Along with balanced risk assessment.
- One-quarter believe 'measured pace' will be dropped

Federal Funds Futures

Two-Year Treasury Change in Response to FOMC Statement and Minutes Releases

Note. Change in the on-the-run two-year Treasury yield from 15 minutes before to 1 hour after the release.

Two-year Treasury Change in Response to Economic Data

Correlations between the S&P500 and the Two-year Treasury

Wilshire Index

Corporate Yields

Nominal Major Currencies Dollar Index

Index: March 1973 = 100
Exhibit 2
The Case for Tightening

Output Gap

Core PCE Inflation*

*Four-quarter percent change.

Range of Estimated Equilibrium Real Rates

An explanatory note is provided in Chart 5 of the Bluebook.

Expected Federal Funds Futures Rate

Cumulative Probability of First FOMC Meeting Without Tightening

Note. Estimates from federal funds and Eurodollar futures, with an allowance for term premia and other adjustments.
Exhibit 3
The Case for Pausing Soon

Values from Policy Rules and Futures Markets

- Actual federal funds rate and Greenbook assumption
- Market expectations estimated from futures quotes

Imposed Coefficients: \( \pi^* = 1.5 \)

<table>
<thead>
<tr>
<th></th>
<th>Q1</th>
<th>Q2</th>
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</thead>
<tbody>
<tr>
<td>Baseline Taylor Rule</td>
<td>2.70</td>
<td>3.16</td>
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<td>Aggressive Taylor Rule</td>
<td>2.12</td>
<td>2.56</td>
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<td>First-Difference Rule</td>
<td>2.31</td>
<td>2.80</td>
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Imposed Coefficients: \( \pi^* = 2.0 \)

<table>
<thead>
<tr>
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<th>Q1</th>
<th>Q2</th>
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</thead>
<tbody>
<tr>
<td>Baseline Taylor Rule</td>
<td>2.45</td>
<td>2.91</td>
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<tr>
<td>Aggressive Taylor Rule</td>
<td>1.87</td>
<td>2.31</td>
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<tr>
<td>First-Difference Rule</td>
<td>2.06</td>
<td>2.55</td>
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</tbody>
</table>

An explanatory note is provided in Chart 6 of the Bluebook.

### Unemployment Rate

- Baseline
- Slump with Spillover

### Core PCE Inflation*

*Rate of inflation over previous four quarters.

### Employment Cost Index Growth*

*Rate of growth over previous four quarters.

### Inflation Expectations
**Exhibit 4**

**The Case for Pushing up the Pace of Tightening**

---

### Core PCE Inflation

- **Monthly, SAAR**
- **3-month moving average**
- **Central tendency**

*The central tendency of the forecast of 4-quarter growth in the core PCE price index made by Federal Reserve governors and Reserve Bank presidents for the February Monetary Policy Report.*

### Unemployment Rate

- **Monthly**

### Actual Productivity Growth*

- **Quarterly**

*Quarterly growth of output per hour in the nonfarm business sector.*

### WTI Oil Price

- **Daily**
- **Spot**
- **Far-ahead futures**
Exhibit 5
Forward Looking Elements of March Statement Language

The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-3/4 percent.

The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity. Output evidently continues to grow at a solid pace despite the rise in energy prices, and labor market conditions continue to improve gradually. Though longer-term inflation expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident. The rise in energy prices, however, has not notably fed through to core consumer prices.

The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.

With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.
<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>March FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 2-3/4 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by a further 25 basis points to 3 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 3 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 50 basis points to 3-1/4 percent.</td>
<td></td>
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<tr>
<td>2. The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>The Committee believes that, even after this action, the stance of monetary policy remains somewhat accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td>[no change]</td>
<td>The Committee believes that, even after this action, the stance of monetary policy remains accommodative and, coupled with robust underlying growth in productivity, is providing ongoing support to economic activity.</td>
<td></td>
</tr>
<tr>
<td>3. Output evidently continues to grow at a solid pace despite the rise in energy prices, and labor market conditions continue to improve gradually.</td>
<td>Recent data suggest that the solid pace of spending growth has slowed, partly in response to Output evidently continues to grow at a solid pace despite the rise in the earlier increases in energy prices, and labor market conditions, however, apparently continue to improve gradually.</td>
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<td>Output evidently continues to grow at a solid pace despite the rise in energy prices, and labor market conditions continue to improve gradually, sufficient to eliminate any remaining resource slack.</td>
<td></td>
</tr>
<tr>
<td>4. Though longer-term inflation expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident. The rise in energy prices, however, has not notably fed through to core consumer prices.</td>
<td>Though longer-term inflation expectations remain well contained, pressures While pressures on inflation have picked up in recent months, and pricing power is more evident, longer-term inflation expectations remain well contained. The rise in energy prices, however, has not notably fed through to core consumer prices.</td>
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<td>5. The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.</td>
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<td>[no change]</td>
<td>The Committee perceives that, with appropriate monetary policy action, the upside and downside risks to the attainment of both sustainable growth and price stability should be kept roughly equal.</td>
<td></td>
</tr>
<tr>
<td>6. With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.</td>
<td>With underlying inflation expected to be contained relatively low, the Committee believes that remaining policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, the Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.</td>
<td>[no change]</td>
<td>With underlying inflation expected to be contained, the Committee believes that policy accommodation can be removed at a pace that is likely to be measured. Nonetheless, The Committee will respond to changes in economic prospects as needed to fulfill its obligation to maintain price stability.</td>
<td></td>
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