

Appendix 2: Materials used by Mr. Madigan

Exhibit 3 of 4
Raising the Federal Funds Rate 25 b.p. at this Meeting

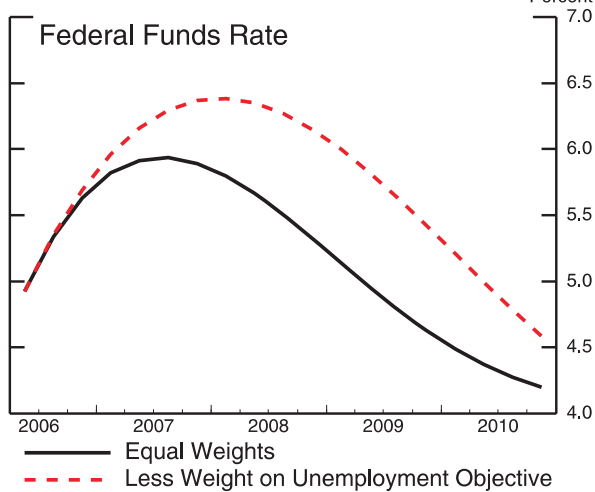
Case For Alternative C
 (+25 b.p., No Policy Tilt)

- Another firming may be seen as necessary to balance the risks
- Costs of a further increase in inflation may be high
- Signal anti-inflationary resolve

Case For Alternative D
 (+25 b.p., Upside Inflation Risks)

- Find staff forecast likely but prefer steeper downward trend to inflation
- Expect stronger aggregate demand than in Greenbook
- See greater inflation pressures than in Greenbook
 - or substantial inflation risks at a funds rate of 5-1/4 percent

Optimal Control Policy ($\pi^* = 1\frac{1}{2}$ Percent)



Persistent Inflation Scenario

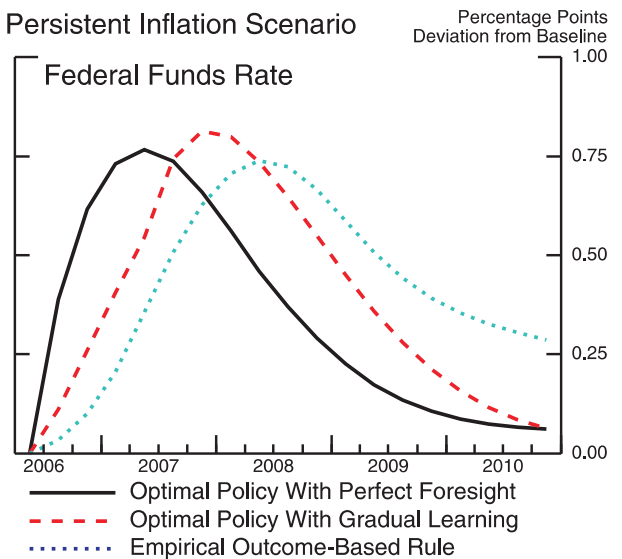


Exhibit 4 of 4

Table 1: Alternative Language for the August FOMC Announcement

	Alternative A	Alternative B	Alternative C	Alternative D
Policy Decision	1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.	The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5½ percent.
	2. Economic growth has moderated from its quite strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices.	[Same as A]	[Same as A]	[Same as A]
Rationale	3. Readings on core inflation have been elevated in recent months, owing in part to pass-through of increased energy and other commodity prices. However, inflation pressures seem likely to moderate over time, reflecting the cumulative effects of monetary policy actions and other factors restraining aggregate demand, ongoing productivity gains, and contained inflation expectations.	Readings on core inflation have been elevated in recent months, owing in part to the pass-through of increased energy and other commodity prices. However, inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	Readings on core inflation have been elevated in recent months, and the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.	Readings on core inflation have been elevated in recent months. The moderation in the growth of aggregate demand and anchored inflation expectations should help to contain inflation in coming quarters. However, the high levels of resource utilization and of the prices of energy and other commodities have the potential to sustain inflation pressures.
Assessment of Risk	4. In these circumstances, future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	Nonetheless, the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.	[Same as A]	The extent and timing of any additional firming that may be needed to foster a moderation in inflation pressures will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information.
	5. [None]	[None]	[None]	[None]