Appendix 1: Materials used by Mr. Kos
Eurodollar Futures Curves
October 25, 2006 – December 8, 2006

2- and 10-Year Treasury Yields and Target Fed Funds Rate
January 2, 2006 – December 8, 2006

U.S. Breakeven Inflation Rates
January 2, 2006 – December 8, 2006

*Labels represent movements in basis points

Source: Barclays
Dow Jones Industrial Average
July 3, 2006 – December 8, 2006

S&P 500 and NASDAQ
July 3, 2006 – December 8, 2006

Dollar/Euro
July 3, 2006 – December 8, 2006

Dollar/Pound
July 3, 2006 – December 8, 2006

Yen/Dollar
July 3, 2006 – December 8, 2006

1-Month Risk Reversals
July 3, 2006 – December 8, 2006

Authorized for Public Release
125 of 134
Foreign Exchange Implied Volatility
January 2, 1995 – December 8, 2006

One-month option implied volatility USD/Yen

One-month option implied volatility USD/Euro


Implied Volatility on the S&P 100
January 2, 1995 – December 8, 2006

VIX Index

Source: Bloomberg

Treasury Yield Implied Volatility
January 2, 1995 – December 8, 2006

Move Index

Source: Merrill Lynch
Leveraged Buyout Activity
1992 – 2006

High Yield Use of Proceeds
1992 – Q3 2006

Source: Merrill Lynch

Leveraged Loan Volumes vs. HY Bond Issuance

Source: S&P LCD

Loans distributed to non-bank investors
Loans retained by banks
HY Bond Issuance

Source: S&P LCD
Appendix 2: Materials used by Mr. Madigan
Exhibit 1
Financial Market Developments

**Ten-Year Treasury Yield**

- **Percent**
  - 4.4
  - 4.6
  - 4.8
  - 5.0
  - 5.2
  - 5.4

**Exchange Value of Dollar**

- **Index(1/3/06=100)**
  - 96
  - 97
  - 98
  - 99
  - 100
  - 101

**Wilshire 5000**

- **Index(1/3/06=100)**
  - 100
  - 105
  - 110
  - 115

**Two-Year Treasury Yield**

- **Percent**
  - Oct. 24 Oct. 31 Nov. 7 Nov. 14 Nov. 21 Nov. 28 Dec. 5
  - 4.4
  - 4.6
  - 4.8
  - 5.0
  - 5.2
  - 5.4

**Inflation Compensation**

- **Percent/basis points**
  - Level Change from Oct. 24
  - Five-year* 2.26 0
  - Five-year five years ahead 2.54 -7

**Change in Implied One-Year Forward Treasury Rates since Last FOMC Meeting**

- **Basis points**
  - Years Ahead
  - 1 2 3 5 7 10
  - 0 -10 -20 -30 -40

**Revisions to GDP Forecasts**

- **Percentage points**
  - Primary Dealers -.3
  - Blue Chip -.2
  - Greenbook* 0
  - Most recent revision Long-term
  - Blue Chip (2008-17) 0
  - Primary Dealers (potential GDP) 0

*Forward rates are the one-year rates maturing at the end of the year shown on the horizontal axis that are implied by the smoothed Treasury yield curve.

*Adjusted for the carry effect.

*Adjusted for motor vehicle anomaly.
**Exhibit 2**

**Financial Market Developments**

### Estimated Decomposition of Ten-Year Treasury Zero-Coupon Yield

Based on three-factor affine term structure model.

<table>
<thead>
<tr>
<th></th>
<th>Expected nominal</th>
<th>Risk premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 24</td>
<td>4.60</td>
<td>.31</td>
</tr>
<tr>
<td>Dec 11</td>
<td>4.51</td>
<td>.12</td>
</tr>
</tbody>
</table>

### Implied Volatilities

*Width of a 90 percent confidence interval computed from the term structures for the expected federal funds rate and implied volatility.*

### Dealers’ Average Subjective Uncertainty: Fed Funds Rate Third Meeting Ahead

Source: Trading desk’s survey of primary dealers. Uncertainty: mean standard deviation of each dealer’s subjective distribution.

<table>
<thead>
<tr>
<th></th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basis points</td>
<td>5</td>
<td>10</td>
<td>15</td>
<td>7</td>
</tr>
</tbody>
</table>

2006

### Expected Target Funds Rate

Source: Federal funds futures quotes and trading desk’s survey of primary dealers.

<table>
<thead>
<tr>
<th></th>
<th>Primary Dealers</th>
<th>Fed Funds Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007: Q1</td>
<td>5.16</td>
<td>5.16</td>
</tr>
<tr>
<td>2007: Q2</td>
<td>4.98</td>
<td>4.99</td>
</tr>
<tr>
<td>2007: Q3</td>
<td>4.85</td>
<td>4.73</td>
</tr>
<tr>
<td>2007: Q4</td>
<td>4.82</td>
<td>4.54</td>
</tr>
</tbody>
</table>

### Dealer Expectations For Today’s Announcement

- Dealers expect no change to stance of policy.
- Most expect little change to wording:
  - only updates of characterization of economy
- A minority anticipate a more significant softening of words

Source: Trading desk’s survey of primary dealers.

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Exhibit 3
Monetary Policy Alternatives

Case for Alternative A

*Unchanged funds rate, balanced risks*
- Still concerned about inflation risks
- But see greater downside risks
  - slight weakening of near-term projection
  - possible nonlinear effects as growth slows
  - financial markets may be signalling weakness
- Consistent with estimated policy rules

Case for Alternative C

+25 b.p., upside risks
- Financial conditions have become more stimulative...
- As labor markets have tightened further.
- Core inflation does not appear to be on a noticeable downward trend.
- The Committee may be dissatisfied with projected decline in inflation.

Case for Alternative B

*Unchanged Funds Rate, Inflation Risks*

Equilibrium Real Federal Funds Rate
Short-Run Estimates with Confidence Intervals

Optimal Control Simulation
Two Percent Inflation Objective
Federal Funds Rate

Inflation risks apparently still predominant
- Unemployment rate below most estimates of NAIRU
- Inflation above some participants’ preferred ranges
<table>
<thead>
<tr>
<th>Table 1: Alternative Language for the December FOMC Announcement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy Decision</strong></td>
</tr>
<tr>
<td>1. The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5¼ percent.</td>
</tr>
<tr>
<td>2. Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.</td>
</tr>
<tr>
<td><strong>Rationale</strong></td>
</tr>
<tr>
<td>3. Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
</tr>
<tr>
<td><strong>Assessment of Risk</strong></td>
</tr>
<tr>
<td>4. 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.</td>
</tr>
</tbody>
</table>
Table 1: Alternative Language for the December FOMC Announcement

<table>
<thead>
<tr>
<th>Policy Decision</th>
<th>October FOMC</th>
<th>Alternative A</th>
<th>Alternative B</th>
<th>Alternative C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Policy Decision</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.</td>
<td>The Federal Open Market Committee decided today to keep its target for the federal funds rate at 5 1/4 percent.</td>
<td>The Federal Open Market Committee decided today to raise its target for the federal funds rate by 25 basis points to 5 1/2 percent.</td>
</tr>
<tr>
<td>2. Rationale</td>
<td>Economic growth has slowed over the course of the year, partly reflecting a cooling of the housing market. Going forward, the economy seems likely to expand at a moderate pace.</td>
<td>Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although that adjustment is ongoing and could have a more pronounced effect on growth in coming quarters than anticipated, the economy seems likely to expand at a moderate pace.</td>
<td>Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. Although some recent indicators of production and spending have been slightly weaker than anticipated, the economy seems likely to expand at a moderate pace on balance over coming quarters.</td>
<td>Economic growth has slowed over the course of the year, partly reflecting a substantial cooling of the housing market. The economy seems likely to expand at a moderate pace on balance over coming quarters.</td>
</tr>
<tr>
<td>3. Rationale</td>
<td>Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
<td>Readings on core inflation have improved modestly since the spring but remain elevated. The high level of resource utilization has the potential to sustain inflation pressures. However, inflation pressures seem likely to moderate over time, reflecting reduced impetus from energy prices, contained inflation expectations, and the cumulative effects of monetary policy actions and other factors restraining aggregate demand.</td>
<td>[Unchanged]</td>
<td>Readings on core inflation have been elevated, and the high level of resource utilization has the potential to sustain inflation pressures. Inflation pressures seem likely to moderate over time, but the extent and speed of that moderation are uncertain. In these circumstances, the Committee believed that an additional firming of policy was appropriate to foster the achievement of price stability.</td>
</tr>
<tr>
<td>4. Assessment of Risk</td>
<td>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.</td>
<td>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.</td>
<td>[Unchanged]</td>
<td>Although the Committee both seeks and expects a gradual reduction in inflation, it continues to view the risks to that outcome as to the upside. 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.</td>
</tr>
</tbody>
</table>