

**Appendix 1: Materials used by Mr. Madigan**

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

DIVISION OF MONETARY AFFAIRS

FOMC SECRETARIAT

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**Date:** January 12, 2009  
**To:** Federal Open Market Committee  
**From:** Brian Madigan  
**Subject:** Questions for Committee discussion of possible inflation objective

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Attached are several suggested questions related to the possibility of establishing a numerical inflation objective. Participants may wish to address some or all of these questions at the Committee's videoconference this Friday, January 16.

Attachment

January 12, 2009

**Suggested questions for Committee discussion of issues related to a possible medium-term inflation objective**

1. What do you see as the principal benefits and costs of setting an explicit objective for medium-term inflation?
  - a. What lessons do you draw from the foreign experience in inflation targeting?
  - b. Do you see particular aspects of the U.S. situation that make setting an inflation target especially appropriate or inappropriate? How would an explicit inflation objective relate to the Federal Reserve's dual mandate? Would setting an inflation objective effectively assign less weight to the objective of maximum employment?
  - c. In view of the current potential for excessive declines in inflation and inflation expectations, do you see particular advantages under present circumstances of setting a numerical inflation objective?
2. How should the Committee's conduct of policy be affected by the establishment of a medium-term inflation objective?
  - a. How would the Committee respond to actual and projected deviations of inflation from its objective? How would that response differ from the Committee's current behavior?
  - b. How would an inflation objective affect the Federal Reserve's ability to address financial stability issues? How would an inflation objective interact with policy concerns about asset price developments?
3. Should the Committee set a definite time frame for measuring inflation vis à vis the objective? How exactly would the objective be framed? How, if at all, would the Federal Reserve judge its own success in meeting its price stability and employment objectives?

4. In view of all the considerations, should the Committee set an objective for medium-term inflation? Alternatively, should the Committee set a price level objective?
5. If the Committee were to set a numerical inflation objective, should the objective be framed as single number or a range?
6. What price index should be used? PCE, CPI, or other? Total or core?
7. What should be the numerical value(s) of the target or range?
  - a. How large of an “inflation buffer” do you think is appropriate?
  - b. Given the risk of excessive disinflation, should the Committee set a higher objective for the medium term than it would in more normal circumstances?
8. In its quarterly Summary of Economic Projections, should the Committee publish longer-term projections for GDP growth and unemployment?  
Should the Committee also publish longer-term projections for inflation?
  - a. Should the Committee publish forecasts for short-term interest rates (and other policy tools)?
  - b. How would other aspects of the Federal Reserve’s policy communications be affected?