

**BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**  
**DIVISION OF MONETARY AFFAIRS**  
**FOMC SECRETARIAT**

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**Date:** December 10, 2009  
**To:** Governors and Reserve Bank Presidents  
**From:** Matthew M. Luecke  
**Subject:** Additional Background Paper on Inflation Dynamics

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President Evans asked that the attached background paper by Chicago Fed staff, entitled “Output Gaps and Inflation in DSGE Models,” be distributed. He notes that it is a counterpoint to the negative findings on DSGE models and output gaps in the “Gaps and Monetary Policy” paper, which was distributed last week. The Chicago Fed paper describes a constructive, mainstream DSGE model that builds on work by Christiano, Eichenbaum, and Evans (2005) and produces a very high correlation between measures of fundamental inflation and the output gap.