Date: October 25, 2011
To: Federal Open Market Committee
From: Deborah J. Danker
Subject: Questions for Committee Discussion of Monetary Policy Frameworks

Item 2 on the agenda for next week’s FOMC meeting is “Monetary Policy Frameworks.” The recent memo entitled “Alternative Monetary Policy Frameworks” was provided as background for this discussion. During the go-round on this topic, it would be helpful if participants could address the questions below in the context of their remarks:

1. Under flexible inflation targeting, the central bank pursues an explicit inflation objective, maintains the flexibility to stabilize economic activity, and seeks to communicate its forecasts and policy plans as clearly as possible. Would you view such a framework as consistent with the Federal Reserve’s dual mandate of maximum employment and price stability? If so, do you think the Federal Reserve should enunciate such a framework? More generally, would it be helpful to formulate a consensus statement on the Committee’s policy framework, perhaps using an approach similar to that of the exit strategy statement that the Committee developed earlier in the year?

2. The staff memo on alternative frameworks noted that, in principle, the Committee’s best choice would be to announce and commit to the optimal policy path under commitment. Would it be helpful for the Committee to make such conditional commitments? If so, what are the most effective way(s) to communicate those conditional commitments, for example, by providing policy “thresholds” about the expected future
course of policy or other options illustrated in Alternative A1 of the policy alternatives being distributed on October 25?

3. The staff memo also described policy strategies that might broadly approximate commitment to the optimal policy path, including a price level target and a nominal income target. Taking into account their relative merits and pitfalls, under what circumstances, if any, would it be appropriate to pursue one of these strategies?

4. What steps, if any, should the Committee take to provide more information to the public about the expected future course of policy?