

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: June 6, 2014
To: Federal Open Market Committee
From: David Wilcox
Subject: How Asymmetric are the Risks in the Macroeconomic Outlook?

In Book A of the Tealbook, most attention is focused on the baseline outlook. Under certain very restrictive assumptions, the baseline outlook alone would provide sufficient information, and policymakers could ignore their uncertainty about the outlook. One of those restrictive assumptions is that the risks to the outlook are symmetric. It is generally assumed that the risks to the outlook are not literally symmetric, but what is not known is whether asymmetries in the outlook are likely to be sufficiently material to motivate a substantially different monetary policy than one that might be appropriate if the risks were symmetric. Concerns about asymmetries might be particularly salient for Committee participants presently for several reasons, including the fact of the federal funds rate currently being pinned at its effective lower bound. The objective of the attached memorandum—prepared by Michael Kiley and Oliver de Groot of the Division of Research and Statistics together with Etienne Gagnon of the Division of Monetary Affairs—is to raise some important questions in this area for Committee consideration. The memo makes no pretense of providing definitive answers to these questions but provides some useful perspectives and starting points for discussion. Necessarily, the analysis in the memo is model-dependent. For that reason, the authors make recourse to two different macro models, but it remains the case that if yet different models were used, different answers might be derived.

If you have any questions pertaining to the memo, you may send them either to me or directly to the authors.