

What Are Fed Challenge Teams Supposed to Do?

Teams participating in the Fed Challenge will make a “15-minute presentation on the economy – modeled after the kinds of discussions engaged in by Federal Reserve decision-makers.” More specifically, this means that the team will do the same things the Federal Reserve Open Market Committee (FOMC) does in preparation for and at its meetings held approximately every 6 weeks. Generally stated, the FOMC conducts monetary policy. The FOMC, and Fed Challenge teams, cover current economic conditions, forecast near-term changes in conditions, identify pressing issues that are related to monetary policy, and recommend an increase, decrease, or no change in short-term interest rates.

After each of its meetings, the FOMC releases a statement to the press, summarizing the tone of the discussion at the meeting, announcing the policy action taken, and giving the balance of risks for future monetary policy. The policy action is usually expressed in terms of raising, lowering, or not changing the federal funds rate. An FOMC statement that gives a balance of risks statement expresses a predisposition of the FOMC toward changing the Federal funds rate in the near future. If the FOMC is leaning toward a move in one direction at its next meeting, it will indicate as much in the FOMC press release.

The example FOMC Statement below shows several important aspects of the FOMC’s work. First, it gives the policy recommendation – the target for the federal funds rate was left unchanged at 1-1/4 percent. Next, the statement explains WHY the FOMC took the action that it did. In this case, the committee mentions its accommodative policy stance, robust growth in productivity, and the level of economic

indicators that have been released since its last meeting. The explanation for the policy action is based on the analysis of economic data, but does not present lots of individual economic indicators. The statement presents the results of the FOMC's **ANALYSIS** of the available economic data. It is more important for a team to carefully analyze the most relevant data (and be able to explain what the data is/shows and **WHY** it was determined to be the most relevant), than to present large quantities of raw data. Explaining what the data says about the state of the economy and how the team understands it using monetary theories is the core of the competition. Finally, the committee indicates balance with regard to the goals of price stability and economic growth – indicating a balance of risks for the near future. A thorough presentation might want to include a balance of risks statement for the future, along with what policy makers should watch to determine whether to follow through with the change indicated.

Following their 15-minute presentation, teams will participate in a 10-15 minute question-and-answer session with the competition judges. The judges will ask some of the same questions to all participating teams, but will also ask specific questions of a team to follow up on points made during its presentation. Therefore, teams should thoroughly understand any data, analysis, or conclusions presented. All team members should have a thorough understanding of the macroeconomic theory, analysis and data used in the presentation and be able to participate in an exchange between the team and the panel of judges.

FOMC Statement

December 10, 2002

For immediate release

The Federal Open Market Committee decided today to keep its target for the federal funds rate unchanged at 1-1/4 percent.

The Committee continues to believe that this accommodative stance of monetary policy, coupled with still robust underlying growth in productivity, is providing important ongoing support to economic activity. The limited number of incoming economic indicators since the November meeting, taken together, are not inconsistent with the economy working its way through its current soft spot.

In these circumstances, the Committee believes that, against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the risks are balanced with respect to the prospects for both goals for the foreseeable future.

Voting for the FOMC monetary policy action were Alan Greenspan, Chairman; William J. McDonough, Vice Chairman; Ben S. Bernanke, Susan S. Bies; Roger W. Ferguson, Jr.; Edward M. Gramlich; Jerry L. Jordan; Donald L. Kohn, Robert D. McTeer, Jr.; Mark W. Olson; Anthony M. Santomero, and Gary H. Stern.

FOMC statements give an idea of what the FOMC does, and therefore what Fed Challenge teams are called on to do. They are one of the many pieces of information a Fed Challenge team may want to study in preparation for its presentation.

Since the objective of the Fed Challenge is to give a presentation modeled after Federal Reserve decision-makers (and the FOMC is the main monetary policy decision-making body of the Fed), Fed Challenge teams frequently structure their research and presentations the same as the FOMC. A Fed Challenge team may role-play an FOMC meeting, but may also present the same information, analysis, and policy recommendation using other formats (e.g. a business presentation format, a news panel format). The quality and content of the presentation is what is important, not the format.

How are Teams Supposed to Do It?

Fed Challenge teams must conduct the same type of research and analysis that FOMC members conduct. Of course, FOMC members have staffs of economists working for them. But Fed Challenge teams have the benefit of access to the research conducted by the Board of Governors and the regional Federal Reserve banks. Regional Fed web sites and Federal Reserve publications are important resources to use to prepare for Fed Challenge. Also, the analysis and opinions of Fed policy-makers are available through released research papers and speeches and can be very helpful for understanding what they consider when making policy decisions.

Each regional Federal Reserve Bank President and member of the Board of Governors prepares for each FOMC meeting by collecting and analyzing economic data and relevant regional, national, and international events. FOMC members go through a briefing cycle to prepare for each meeting. A PowerPoint presentation outlining the process used to prepare the San Francisco Federal Reserve Bank President (Robert T. Parry) for an FOMC meeting in November, 2002 is included below.

Because there are multiple goals for monetary policy, FOMC members must look at a variety of data. Price stability, economic growth, and maximum employment are important goals of monetary policy; therefore policy-makers must consider data in these three areas. However, there are data available for more variables to measure each of these areas than could possibly be collected and analyzed. That is why it is important for Fed Challenge teams to decide what data to collect and be able to explain what the data is/shows and **WHY** it was selected from among the many other possibilities. A good way to do this is to look at the data discussed by FOMC members in FOMC statements,

research publications, and speeches. Current economic conditions or current events may also make it necessary to focus on additional data relevant to the specific current situation. In general, Fed Challenge teams will at least want to consider data measuring prices, output, and employment and the change in these measures over time. They will also want to consider data and information indicating future changes in these measures. “The Fed Challenge Brief” cards and data worksheets that follow can help teams start to understand, select, and analyze important economic variables. In addition, participants should refer to the Teacher’s Guide and other information available of the Fed Challenge web site of the Federal Reserve Bank of Boston.