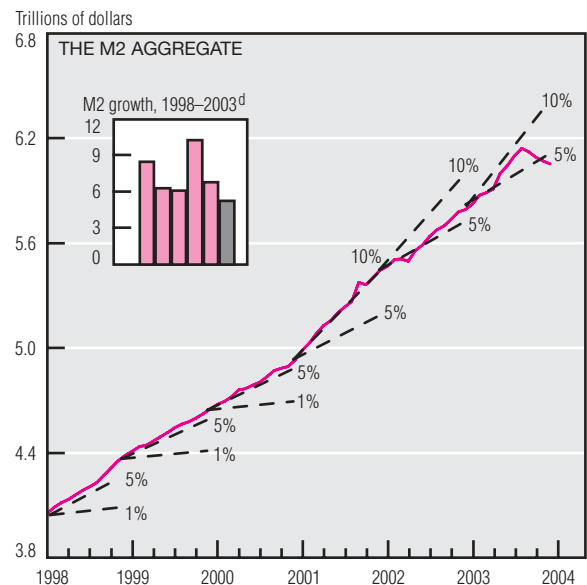
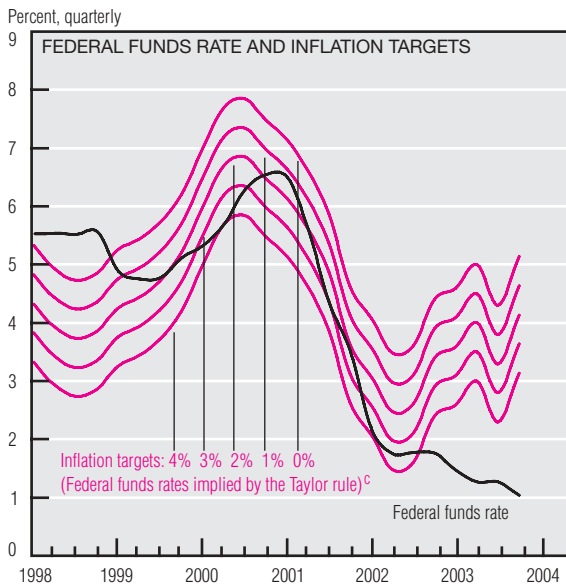
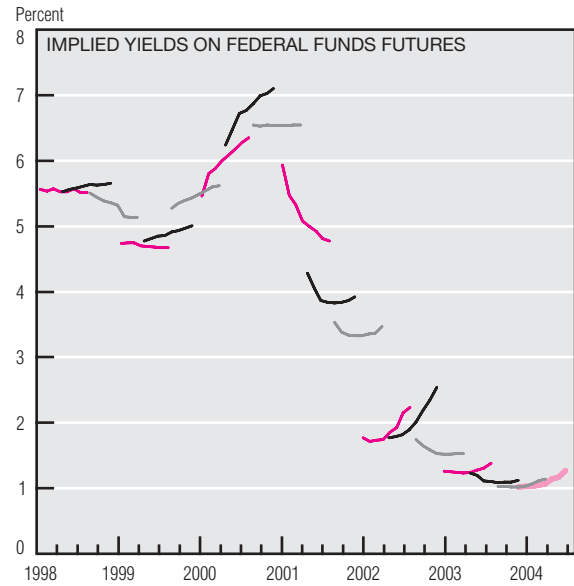
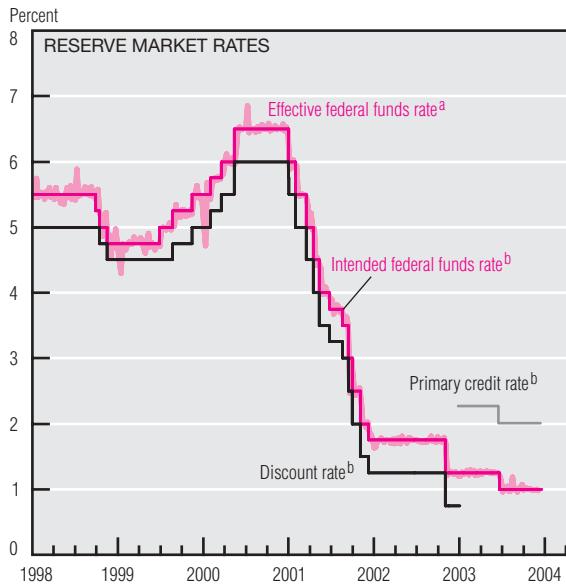


Monetary Policy



a. Weekly average of daily figures.
b. Daily observations.

c. The formula for the implied funds rate is taken from Federal Reserve Bank of St. Louis, *Monetary Trends*, January 2002, which is adapted from John B. Taylor, "Discretion versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy*, vol. 39 (1993), pp. 195-214.

d. Growth rates are calculated on a fourth-quarter over fourth-quarter basis. Data are seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Congressional Budget Office; Board of Governors of the Federal Reserve System, "Selected Interest Rates," H.15, and "Money Stock Measures," H.6, *Federal Reserve Statistical Releases*; and Bloomberg Financial Information services.

At its December 9 meeting, the Federal Open Market Committee (FOMC) decided to keep its target federal funds rate at 1%. The press release noted, however, that the FOMC now finds a reduced probability of "an unwelcome fall in inflation." In line with the October 28 statement, policy accommodation is expected to continue for "a considerable period."

Market expectations may have reacted more strongly to the minutes of the October meeting, which some

market observers took to indicate that the target rate would remain at its current level longer than they had previously expected. They were perhaps reacting to the minutes' statement that FOMC members felt current trends "were likely to hold inflation to very low levels over the next year or two."

So it is not surprising that the implied yields of federal funds futures show only small increases through 2004, although a glance at the market's predictions since 2000

shows it is far from infallible. The December decision also keeps rates well below a popular benchmark provided by the Taylor rule, which posits that the FOMC chooses the target rate as a balanced response to weakness and inflation. The form of the Taylor rule depends on the weights given to inflation and output and to the assumed inflation target. However, the low rates have not led to a surge in the money supply, which has grown less than 5% in 2003.