Forecasting Inflation

Paper – Students may choose one of two paper assignments. Both involve data collection, analysis, and write-up. Both paper topics are reviewed in the YouTube lectures. The topic for the first paper (forecasting inflation) is covered in Module 2, chapter 3. The other paper topic on current monetary policy is covered in Module 7, chapter 10. Rubrics and data sources are provided for each paper. This assignment will be graded by rubric. Paper Assignment: Forecasting Inflation or Recommended Monetary Policy. You have a choice of completing a short paper assignment on forecasting inflation or on recommended monetary policy. Each paper involves data collection, interpretation, and additional analysis. Both papers are illustrated in the YouTube lectures. The inflation forecast paper is illustrated in the lecture for chapter 3 (Module 2). The paper on what the Federal Reserve System should do is discussed in chapter 10 (Module 7). Rely on the material presented in the lectures when writing the paper. Add supplemental, background information if you wish. At the beginning of the class, I will email all students current web sites for the data used in either paper. Use APA format when listing your data sources. Keep in mind that the grade for the paper is based on the content described below, not length. It is possible to present this content in about three or four pages. Detailed instructions for each paper are provided below.1. Paper on forecasting inflation: Collect data on two indicators of inflation (unemployment and capacity utilization) as well as year-to-date inflation. The calculation of year-to-date inflation is illustrated in Module 2 (chapter 2, PDF slide #3). You can examine inflation based on all items, or ‘core’ inflation (all items less food and energy). Collect all data for the last three months for your short-term forecast. Present the data in a table such as the following: Table 1Data Series Oct. 2019Nov. 2019Dec. 201912-month percent change in core CPI (year-to-date) inflation2.32.32.3Capacity Utilization76.977.477.0Unemployment Rate3.63.53.5Describe and define inflation and explain why it is important to know something about expected inflation. Describe and define each of the indicators of inflation and explain how each is related to inflation. Use the data to explain what each indicator tells us about the inflationary outlook. Finally, explain how your information can be used by practitioners. For example, how would financial markets, or exchange rates to respond to your prediction?2. Paper on what the Federal Reserve System should do? This is not a paper on the Federal Reserve System, but on what is appropriate monetary policy, given the current state of the economy. The introduction of the paper should briefly describe the function of the Federal Reserve System and how monetary policy influences economic activity. Provide an assessment of the current state of the economy. To do this, you will need at least one indicator of current economic growth and at least one indicator of inflation. It would be best to examine the trend in these data over the last three months. The data may be organized in a table (see Table 1 above). Provide an interpretation of these data in terms of macroeconomics. Based on this information what do you think the Federal Reserve System should do with respect to the federal funds rate target, or other policy levers? Close with an explanation of how financial markets would respond to your policy recommendation.