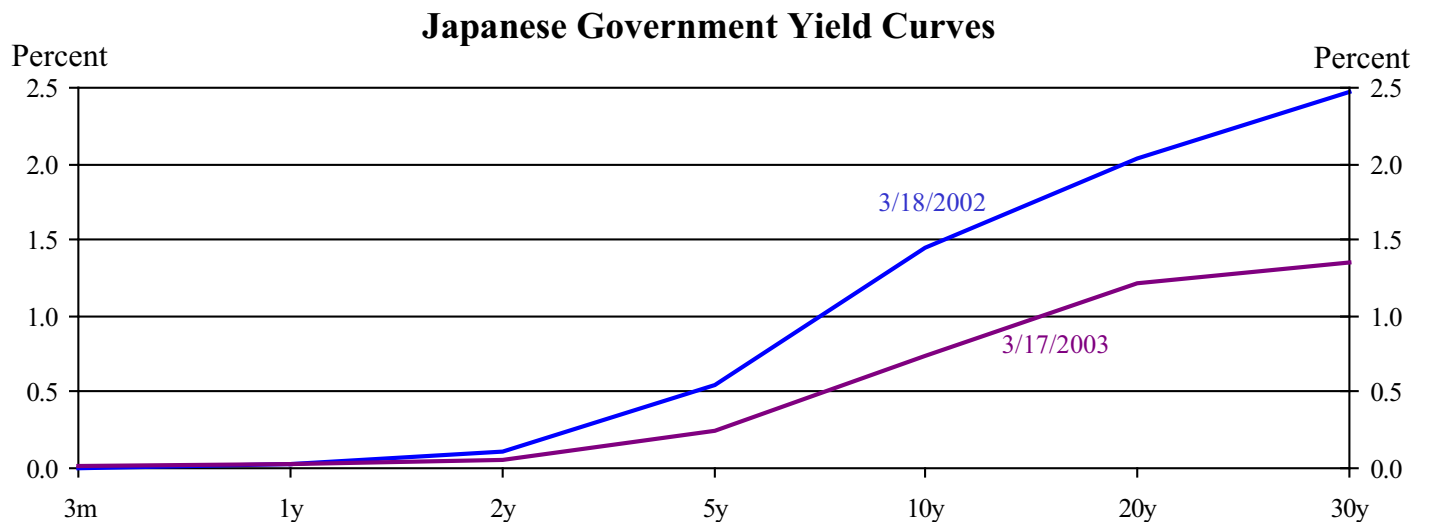
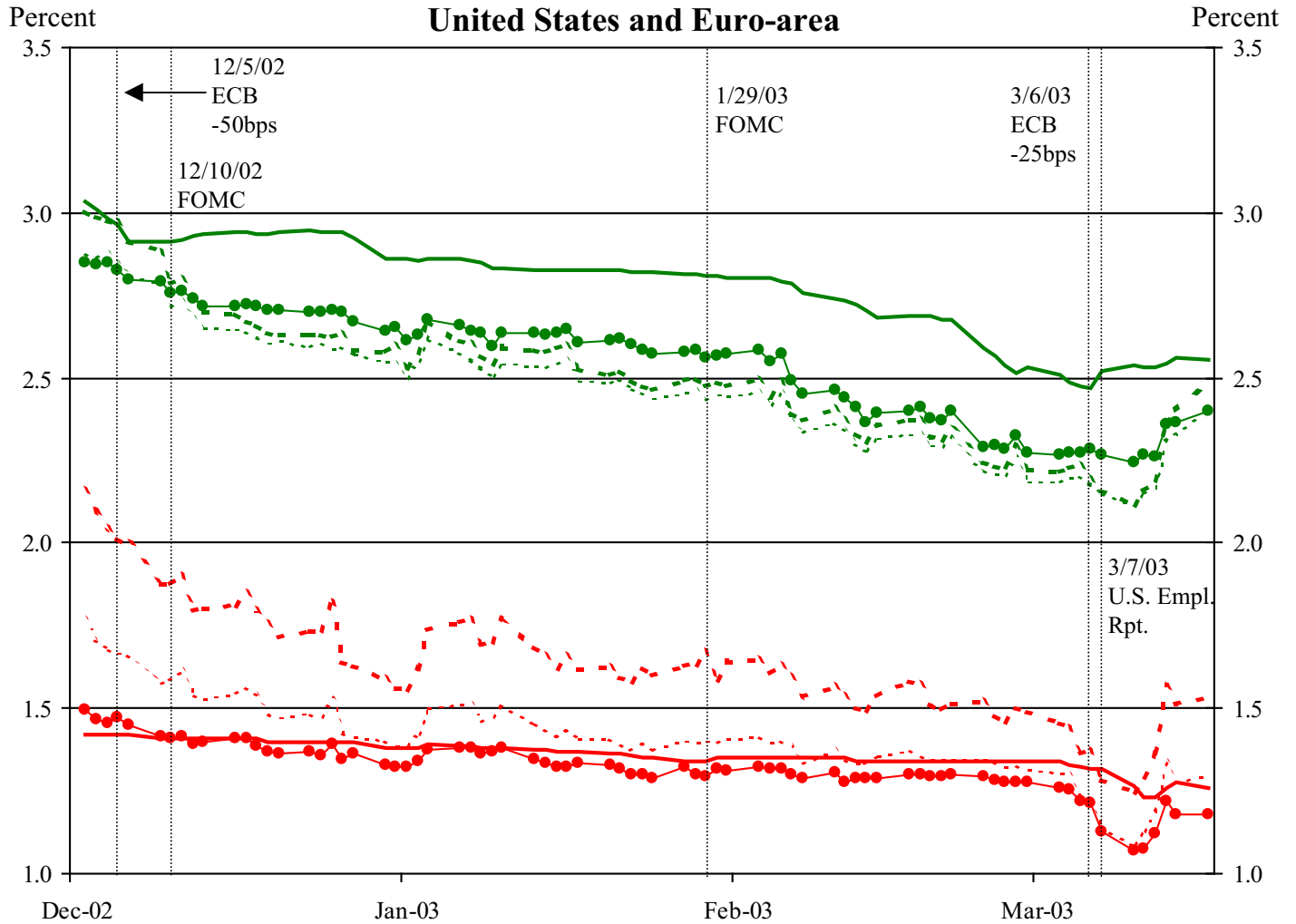
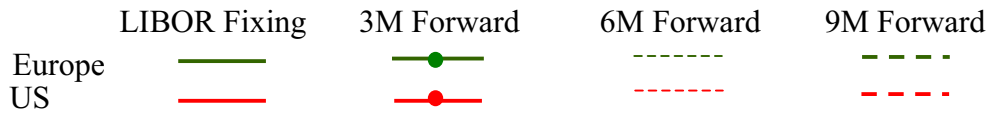


Appendix 1: Materials used by Mr. Kos

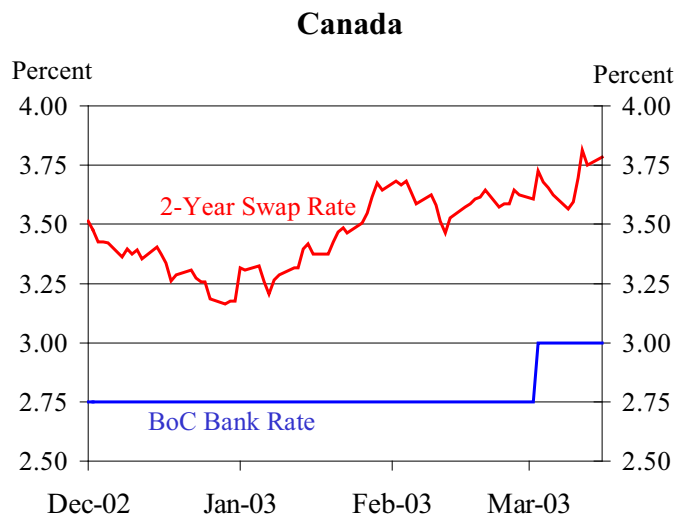
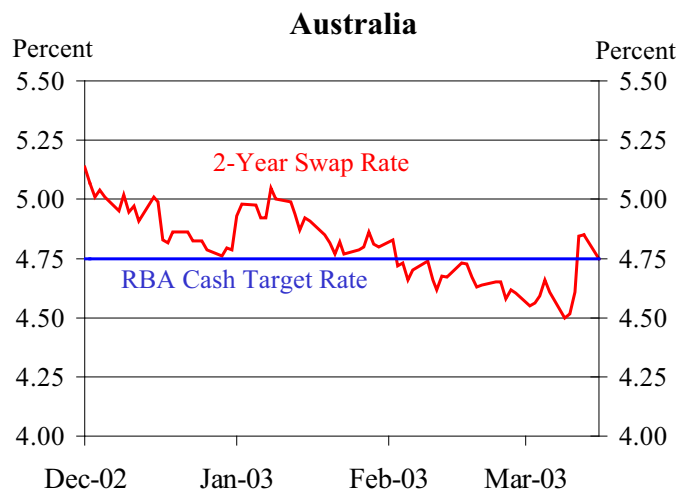
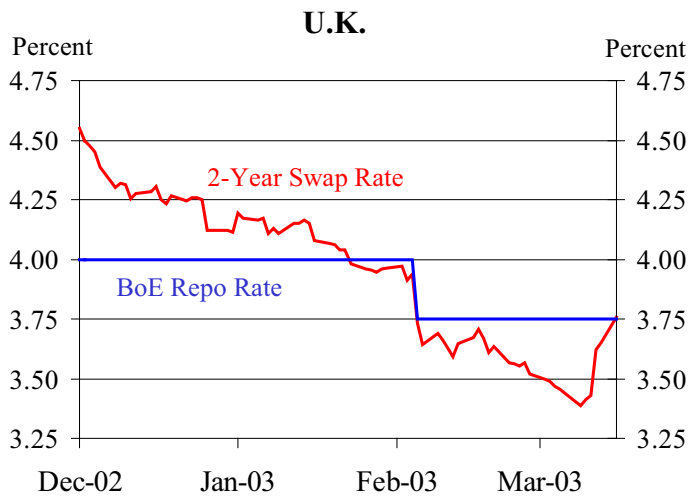
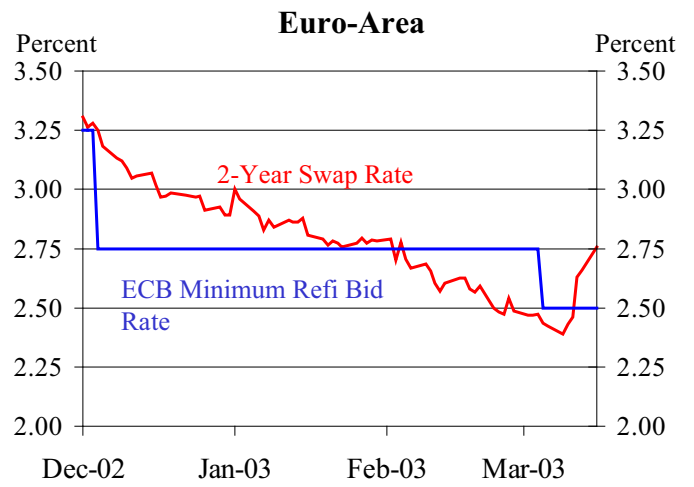
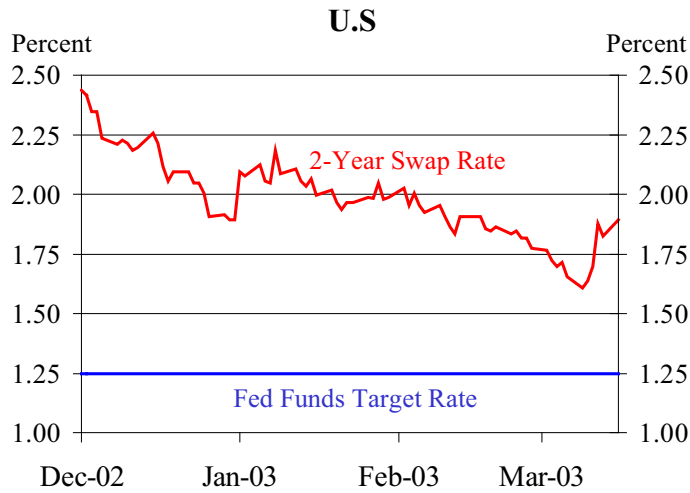
Current 3-Month Deposit Rates and Rates Implied by Traded Forward Rate Agreements

December 2, 2002 to March 17, 2003

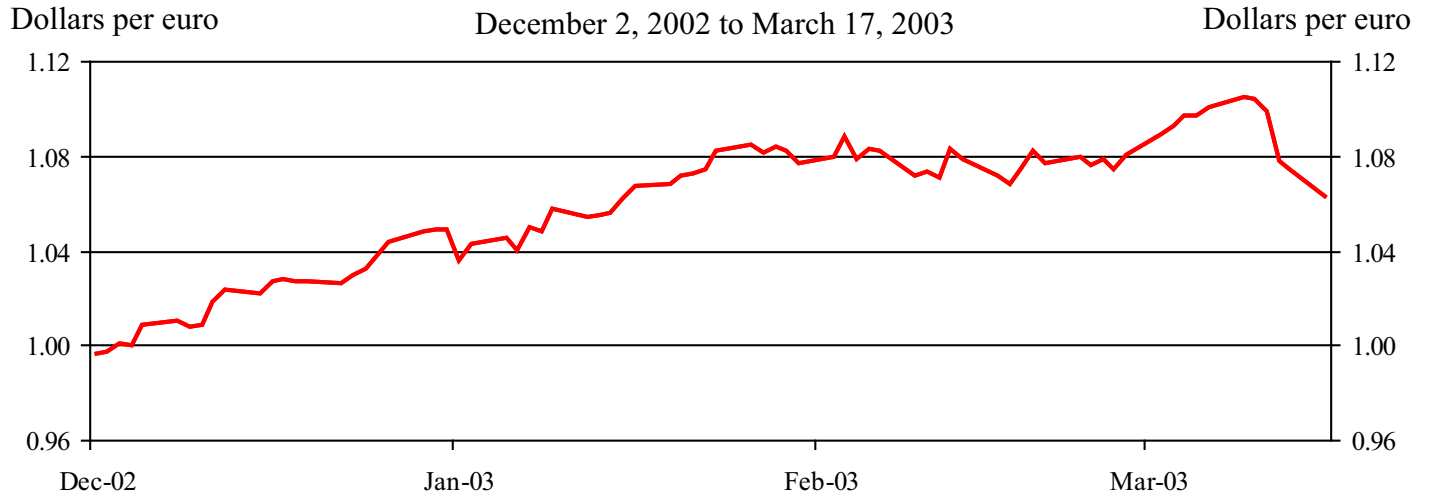


2-Year Swap Rates and Policy Rates for Selected Currencies

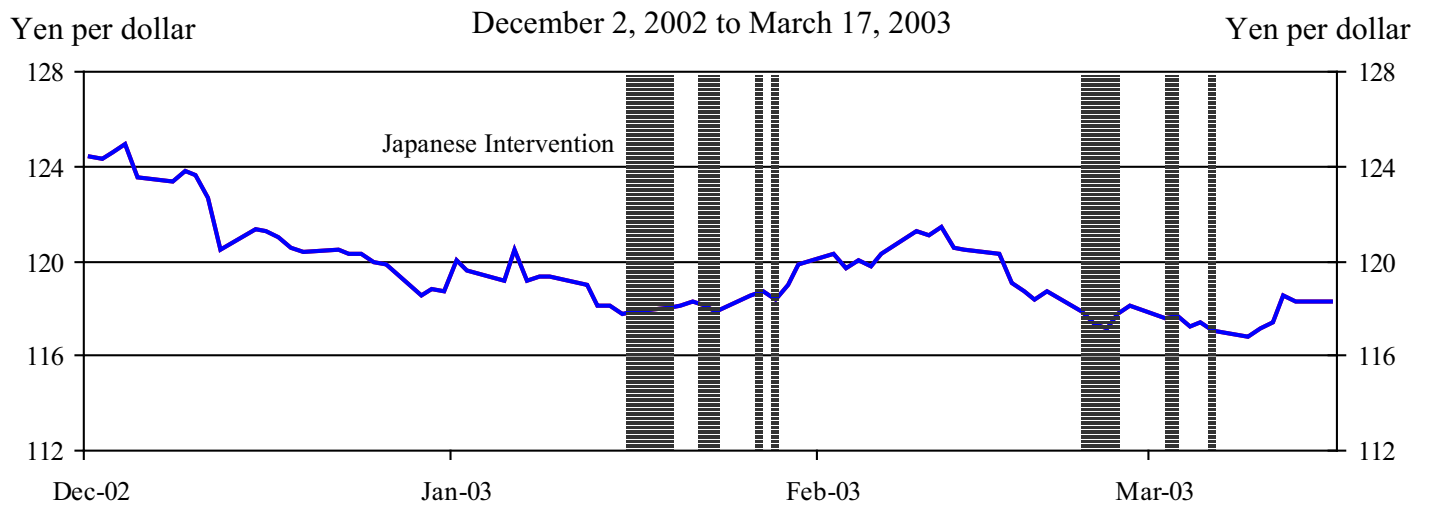
December 2, 2002 to March 17, 2003



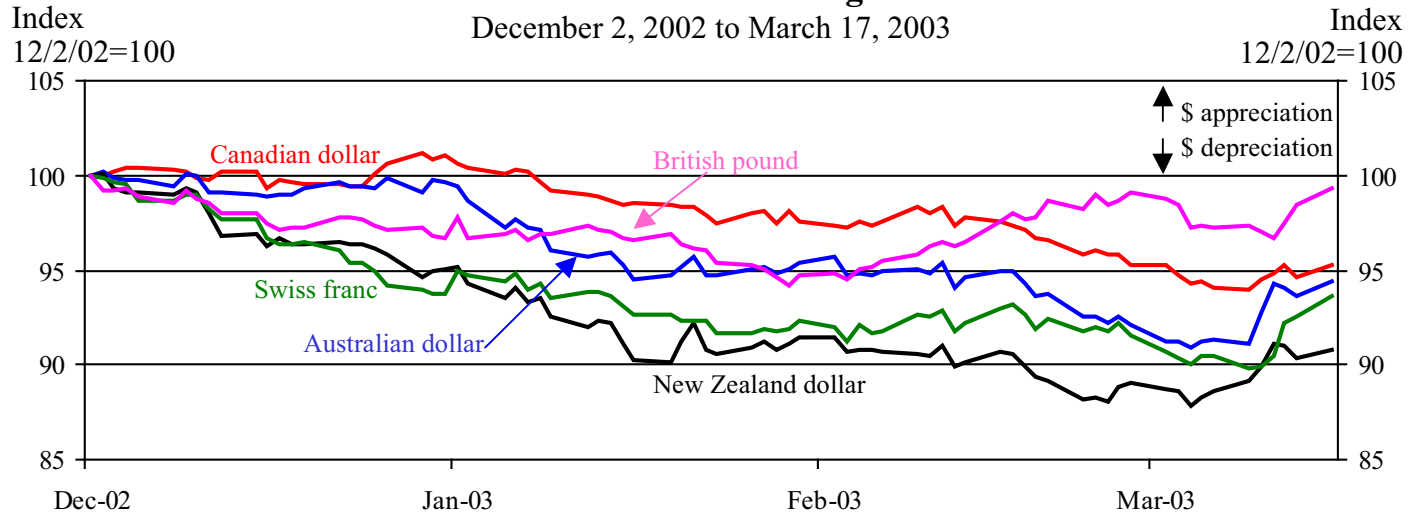
Euro-Dollar Exchange Rate



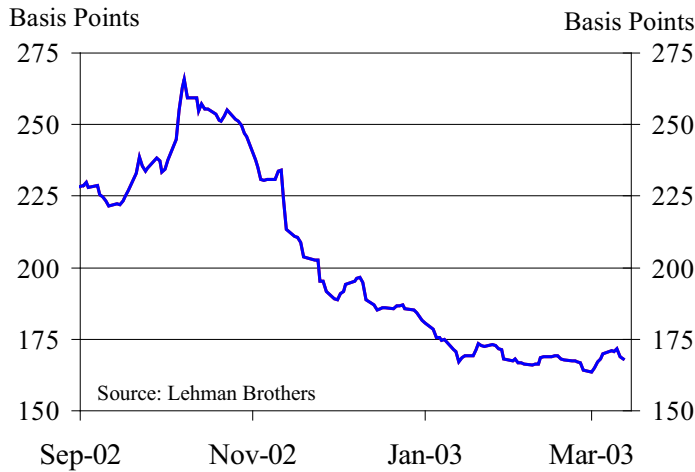
Dollar-Yen Exchange Rate



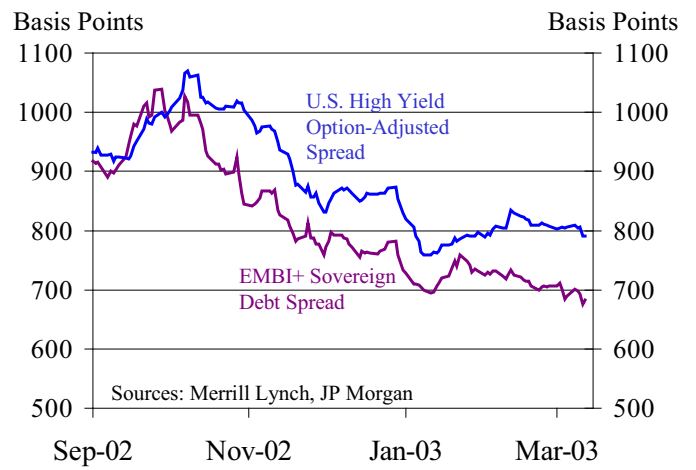
The Dollar Versus Other Foreign Currencies



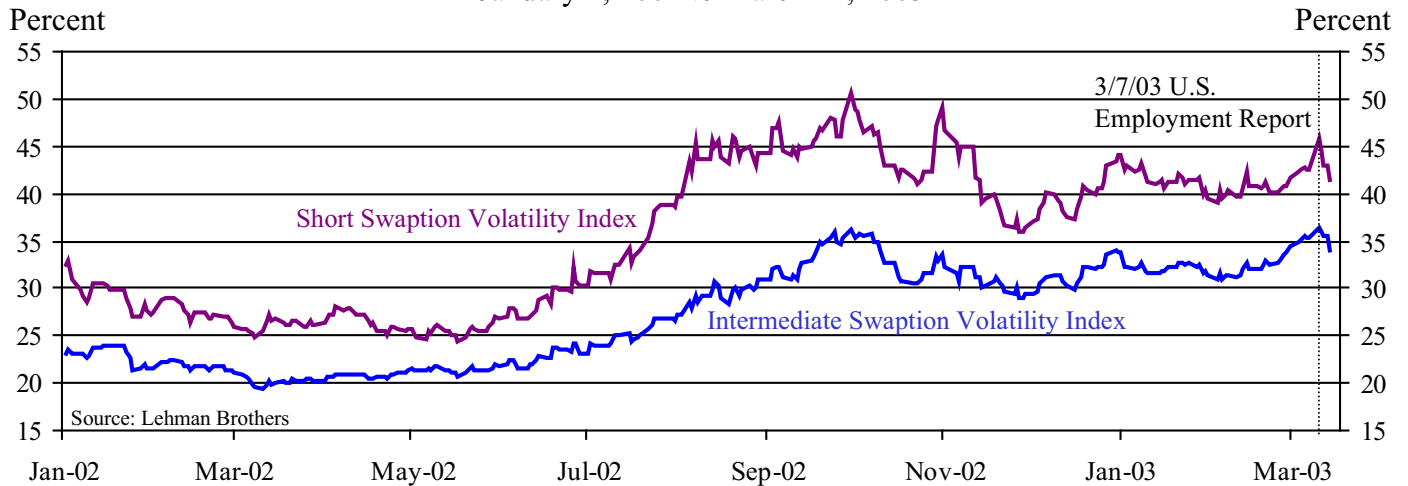
U.S. Investment Grade Corporate Option-Adjusted Spreads
September 3, 2002 to March 14, 2003



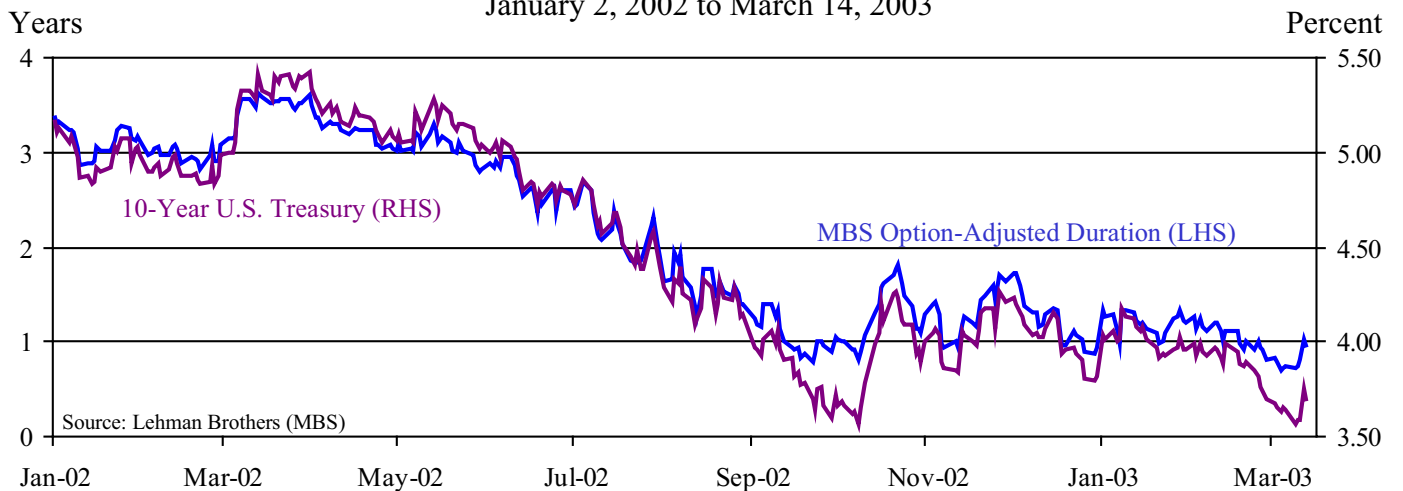
EMBI+ Sovereign Debt and U.S. High Yield Corporate Spreads
September 3, 2002 to March 14, 2003



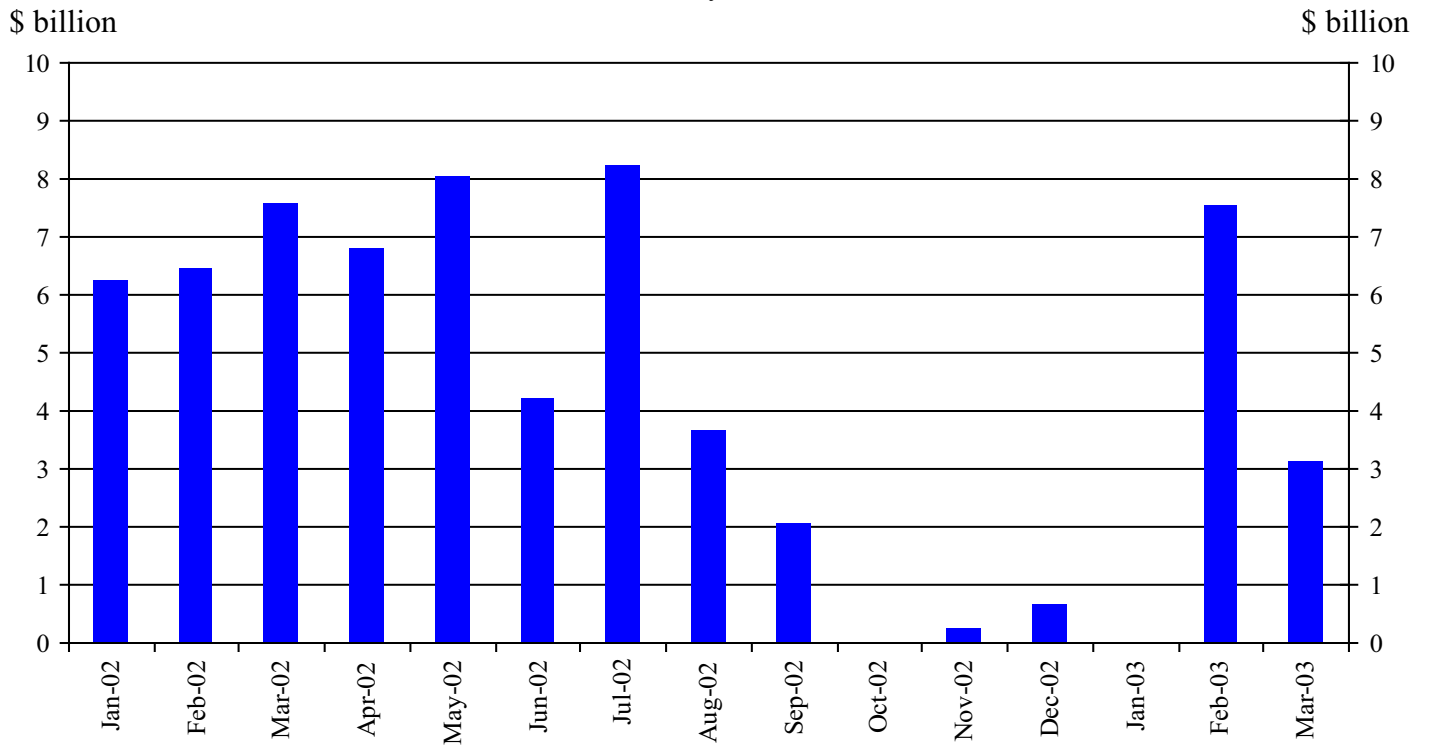
Short and Intermediate Swaption Volatility Indices
January 2, 2002 to March 14, 2003



MBS Option-Adjusted Duration Versus 10-Year U.S. Treasury Yield
January 2, 2002 to March 14, 2003



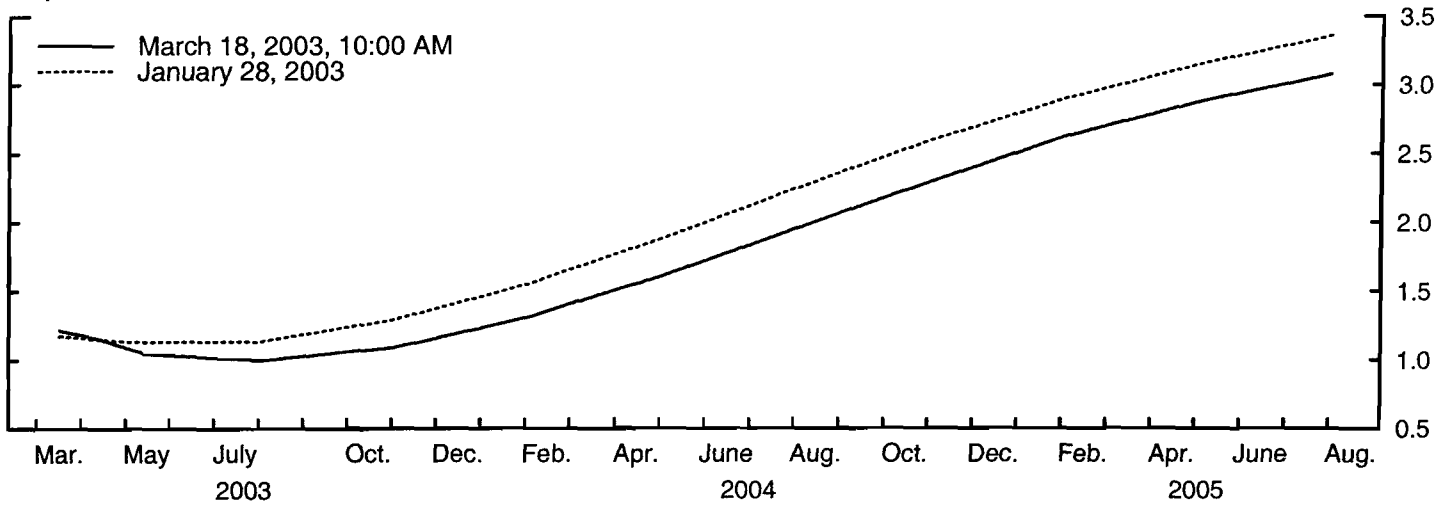
Outright Purchases for the System Open Market Account Monthly Totals



Appendix 2: Materials used by Mr. Reinhart

Chart 1 Policy Expectations

Expected Federal Funds Rates*



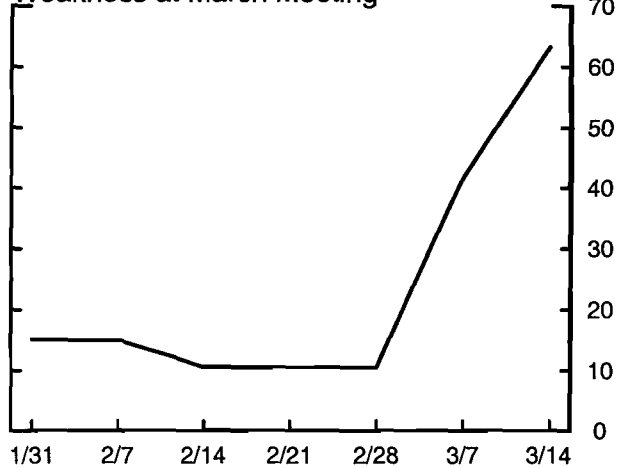
*Estimates from federal funds and eurodollar futures with an allowance for term premia and other adjustments.

Expected Balance of Risks*
(Percent of Respondents)

	March	May	June
Weakness	63	58	56
Neutral	37	42	42
Inflation	0	0	2

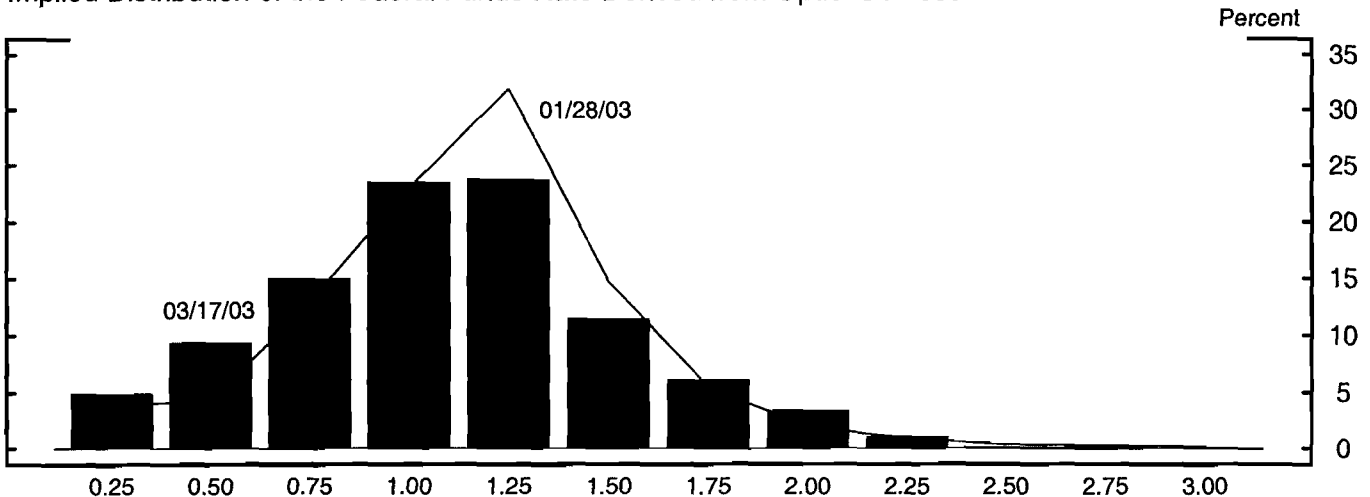
*From March 14, 2003 Money Market Services survey.

Percent Expecting Balance Toward Weakness at March Meeting*



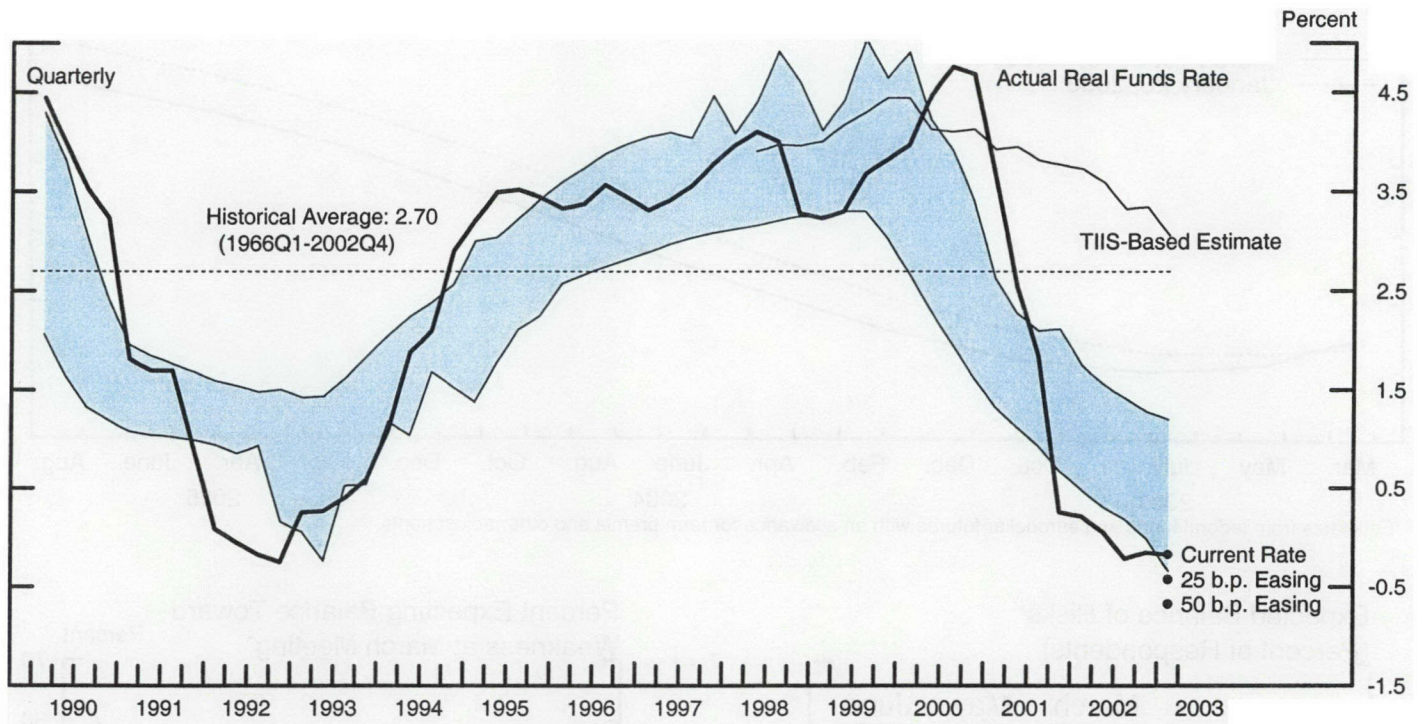
*Responses from Money Market Services surveys.

Implied Distribution of the Federal Funds Rate Derived from Options Prices*



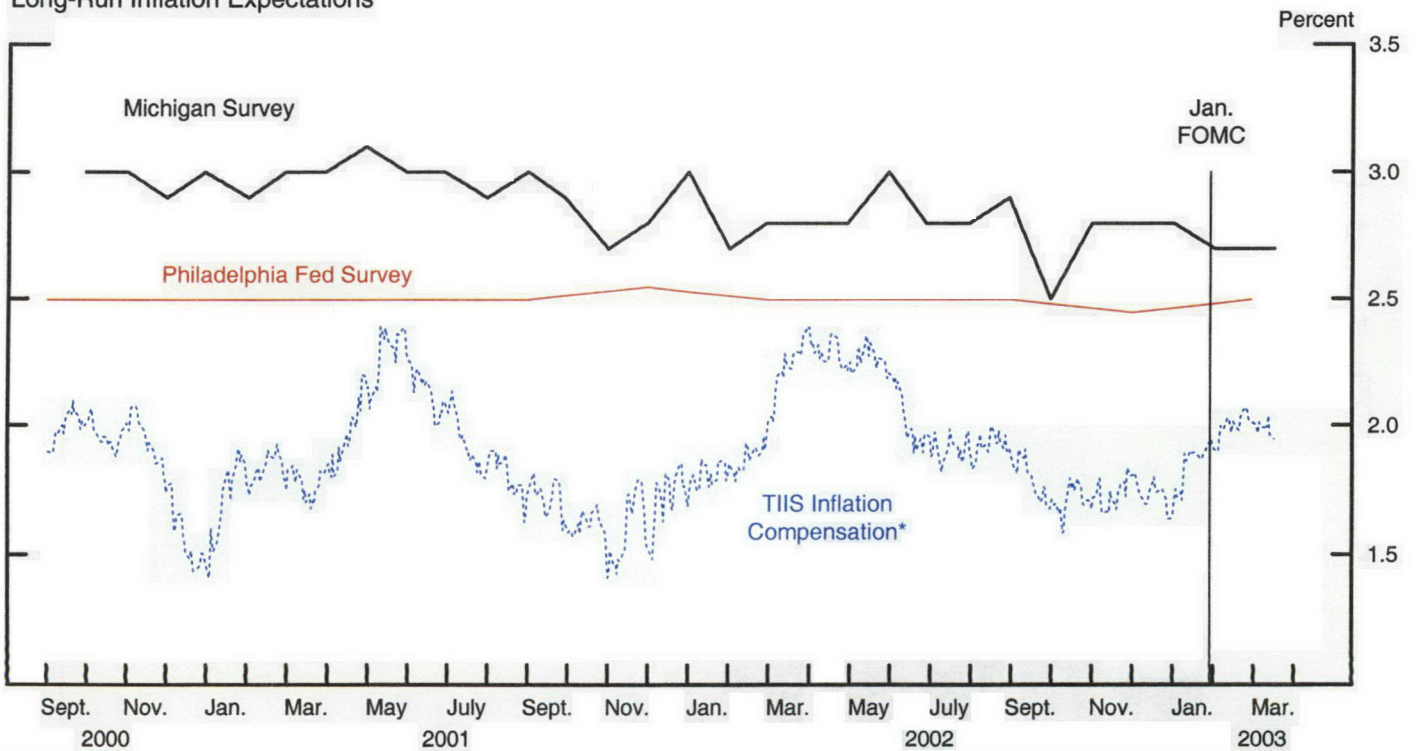
*Calculated from 150-day constant maturity eurodollar options.

Chart 2



Note: The shaded range represents the maximum and the minimum values each quarter of four estimates of the equilibrium real federal funds rate based on a statistical filter and the FRB/US model. Real federal funds rates employ four-quarter lagged core PCE inflation as a proxy for inflation expectations, with the staff projection used for 2003Q1.

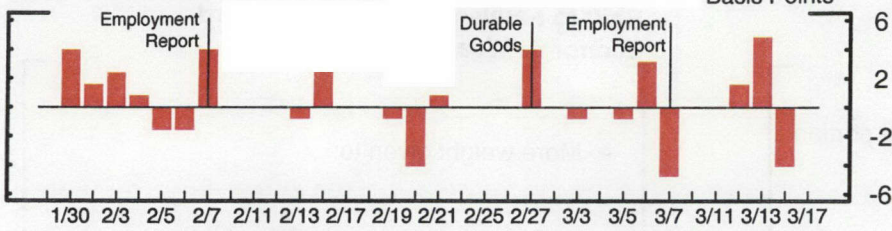
Long-Run Inflation Expectations



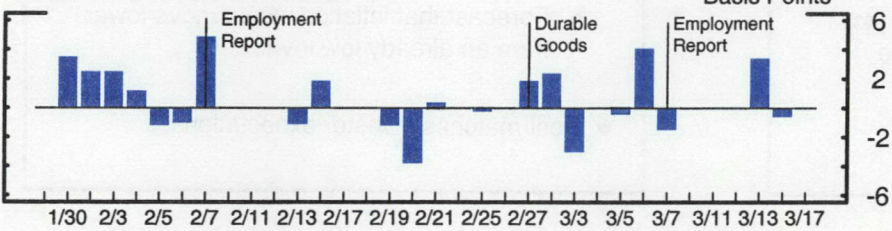
*The inflation rate that equalizes the price of the January 2012 TIIS and the value of a portfolio of nominal securities with the same payments.

Chart 3

Response of Two-Year Treasury



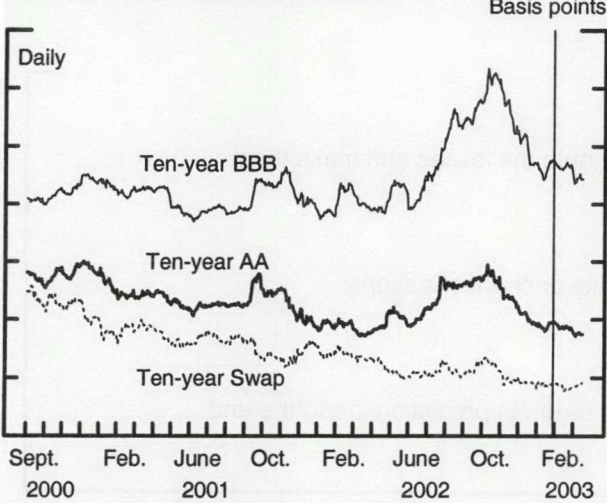
Response of Ten-Year Treasury



Changes from 1/28/03 to 3/17/03

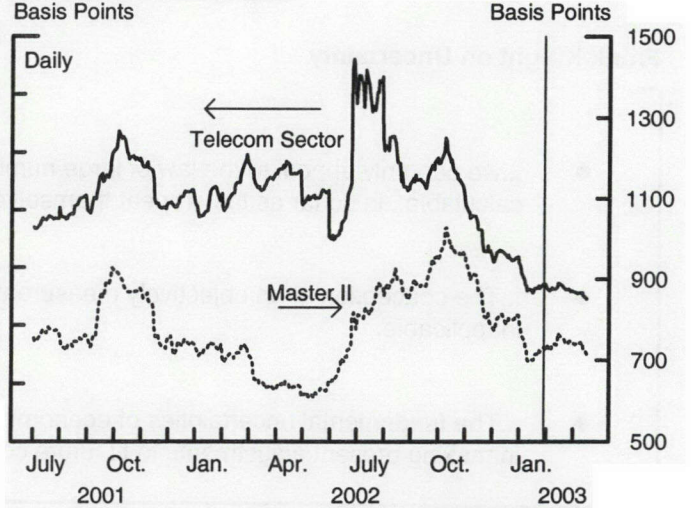
	Due to Data Releases	Total
-Basis Points-		
Two-Year	10	-5
Ten-Year	15	-16

Spreads of Selected Private Long-Term Yields



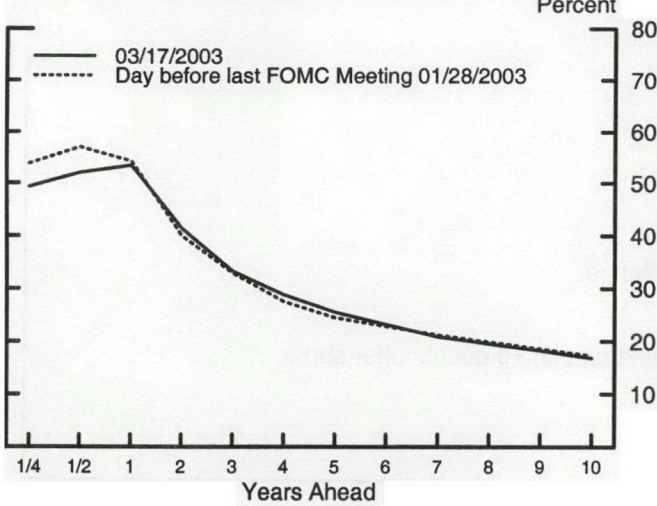
Note: Spreads measured over ten-year Treasury.

High-Yield Debt Spreads



Note: Spreads measured over ten-year Treasury. Source: Merrill Lynch.

One-year Swap Rate Implied Volatilities



Crude Oil Implied Volatility

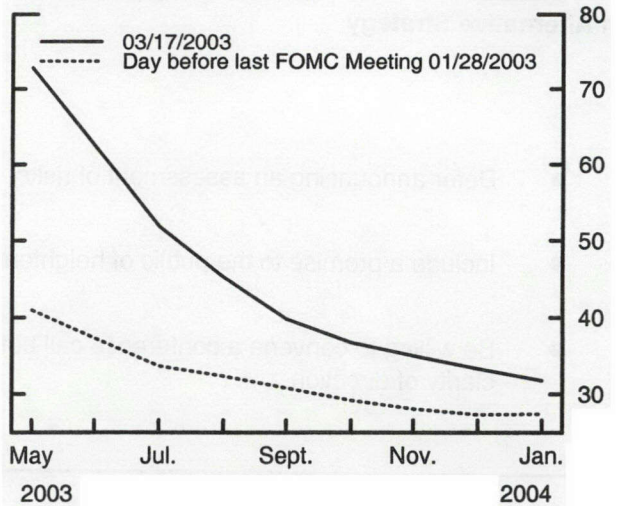


Chart 4

Retain a Balanced Risks Assessment

- War worries will constitute a significant portion of the uncertainty.
- Economy is fundamentally sound.
- Change would convey more conviction to market participants than the committee actually had.

Shift to a Balance Weighted Toward Economic Weakness

- More weight given to:
 - Downbeat economic data of late.
 - Forecast that inflation would move lower from an already low level.
- Best matches investor expectations.

Frank Knight on Uncertainty

- ...we can only appeal to the law of large numbers to distribute the losses and make them calculable...in so far as they repeat themselves.
- ...The conception of an objectively measurable probability or chance is simply inapplicable.
- ...The fundamental uncertainties of economic life are the errors in predicting the future and in making present adjustments to fit future conditions.

An Alternative Strategy

- Defer announcing an assessment of risks.
- Include a promise to the public of heightened surveillance.
- Be willing to convene a conference call before the next meeting if events offer some clarity of direction.