

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF MONETARY AFFAIRS
FOMC SECRETARIAT

Date: October 6, 2010
To: Federal Open Market Committee
From: Deborah J. Danker
Subject: Initial Background Material for October 15 Meeting

As promised, the Secretariat has made available in SDS a number of previously prepared documents as background for the FOMC discussion on October 15. These documents, which are also listed at the end of this memo, appear in SDS under the heading of “Framework Discussion.” Four of the most relevant documents are listed first, with asterisks in front of their titles. All of the documents are further categorized by the designation of “LSAP,” “Inflation,” or “Other”

On October 13, Board staff will distribute a memo discussing three possible frameworks for the Committee’s consideration: An approach based on a qualitative assessment of the dual mandate, an approach based on an explicit numerical objective for inflation, and an approach based on an explicit price-level target. The memorandum also will discuss the relative benefits and costs of an incremental approach to changes in the Federal Reserve’s holdings of longer-term securities, as well as communications issues associated with the different frameworks, including possible statement language that could be used at upcoming meetings. We also plan to distribute a second memo providing information on policy tools that the Committee could use, as part of a given

framework, to reach its objectives. The tools considered will include large-scale asset purchases, targets for intermediate- or long-term interest rates, and derivatives (mainly options).

If you have a perspective or a staff memo on this topic that you would like to share with the Committee in advance of the meeting, please let me know of your intention as soon as possible; we would hope to receive any such documents by c.o.b. on Tuesday, October 12.

Previously Prepared Background Material
(Available in SDS)

** LSAP: Large-Scale Asset Purchases by the Federal Reserve: Did They Work? (3/2010)

** LSAP: Economic Effects of Large-Scale Purchases of Long-Term Treasury Securities and Agency Debt and MBS (3/9/2009)

** Inflation: The Price Objective for Monetary Policy: An Outline of the Issues (6/21/1996)

** Inflation: Issues Pertaining to the Specification of a Numerical Price-Related Objective for Monetary Policy (3/12/2007)

LSAP: Optimal Paths for Large-Scale Asset Purchases (4/20/2009)

LSAP: Large-Scale Asset Purchases and Inflation Expectations in the FRB/US Model (4/20/2009)

LSAP: A Preliminary Assessment of the Effects of the Federal Reserve's Large-Scale Asset Purchases on Interest Rates (4/23/2009)

LSAP: The Recent Use of Large-Scale Asset Purchases by Foreign Central Banks (6/15/2009)

LSAP: Large-Scale Asset Purchases: Recent Experience and Some Policy Considerations (6/16/2009)

LSAP: Quantitative Analysis of the Macroeconomic Effects of Alternative Strategies for Managing the Federal Reserve's Securities Holdings (4/22/2010)

Inflation: Discussion at the Upcoming FOMC Meeting (10/13/2006)

Inflation: Foreign Experience with the Formulation and Discussion of Inflation Objectives (3/8/2007)

Inflation: An Update on the Foreign Experience with Explicit Numerical Price Objectives (1/9/2009)

Other: Targeting the Yield Curve: The Experience of the Federal Reserve, 1942-51 (6/18/2003)

Other: The Scope of Monetary Policy Actions Authorized Under the Federal Reserve Act (2005)

Other: Notes on Issues Related to the Zero Lower Bound on Nominal Interest Rates (12/12/2008)

Other: Alternative Instruments for Open Market and Discount Window Operations (12/2002)