

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF RESEARCH AND STATISTICS

Date: April 21, 2009
To: Federal Open Market Committee
From: Dave Stockton
Subject: Background Information on Issues Related to Large-Scale Asset Purchases, Inflation Expectations, and Uncertainty about the Economic Outlook

Attached are three memos that address several issues raised at the March FOMC meeting. The first memo—"Optimal Paths for Large-Scale Asset Purchases" by Eileen Mauskopf and Jae Sim—explores issues related to the design of an "optimal" program of buying and selling long-term Treasury and GSE securities and presents some illustrative (but rudimentary) simulation results. The second memo—"Large-Scale Asset Purchases and Inflation Expectations in the FRB/US Model" by Dave Reifschneider and John Roberts—discusses how the price effects of large-scale asset purchases vary under different assumptions for the behavior of long-run inflation expectations. Finally, the last memo—"Changes in Macroeconomic Uncertainty" by Robert Tetlow and Peter Tulip—considers the recent evidence on macroeconomic volatility and its implications for staff estimates of forecast uncertainty.