Haimei Shao* (hshao@bbandt.com) and Jiongmin Yong. Does the Fed make mistakes?

The original Taylor Rule has been a benchmark for monetary policy, which traces the actual monetary policy well during Greenspan’s era, however, the Fed did not follow the original Taylor Rule after the great recession of 2008. In fact, the Fed followed variants of the Taylor rule since 2008. By reconciling the actual monetary policy using historical data, we nd that (1) the Fed puts more weights on unemployment rate rather than GDP growth; (2) the Fed considers the participants rate as well as unemployment rate; (3) the Fed also considers the financial market conditions which is not included in the original Taylor rule. This study leads us to reflect what the optimal policy would be in the future U.S. economy that baby boomers are retiring, the government debt is historically high and the Tax cut is possibly on its way.

Keywords: Monetary Policy, Fed Funds Rate, Unemployment Rate, Inflation, financial market condition, baby boomer, tax cut. (Received July 21, 2017)