

First Meeting of the
Federal Open Market Committee



Greenbook 1



FOLD

Gross Domestic Product (in real dollars)

| GDP (billions) | Actual | | | | Projected | | | |
|-------------------|-------------|------------|-------------|--------------|-------------|------------|-------------|--------------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| | \$5,137 | \$5,147 | \$5,152 | \$5,189 | \$5,262 | \$5,367 | \$5,480 | \$5,601 |
| GDP growth | 1.3% | 0.2% | 0.1% | 0.7% | 1.4% | 2.0% | 2.1% | 2.2% |

Civilian Employment

| Number Employed (thousands) | Actual | | | | Projected | | | |
|--------------------------------|-------------|------------|-------------|--------------|-------------|------------|-------------|--------------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| | 97,133 | 97,948 | 98,013 | 99,006 | 99,078 | 99,026 | 99,167 | 99,067 |
| Unemployment Rate | 5.8% | 5.9% | 5.8% | 5.7% | 5.5% | 5.4% | 5.1% | 5.0% |

Consumer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|----------|---------|----------|-----------|-----------|---------|----------|-----------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| All goods | 8.9% | 9.3% | 10.5% | 11.5% | 13.4% | 14.7% | 15.5% | 14.3% |
| Energy | 7.1% | 9.2% | 15.8% | 29.2% | 35.3% | 35.9% | 41.8% | 38.8% |
| Food | 11.4% | 12.5% | 11.9% | 10.3% | 9.8% | 9.5% | 8.6% | 7.6% |

Producer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|----------|---------|----------|-----------|-----------|---------|----------|-----------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| All goods | 9.5% | 10.5% | 11.4% | 12.5% | 14.6% | 15.6% | 14.3% | 14.1% |
| Energy | 7.2% | 10.9% | 19.4% | 36.7% | 55.6% | 60.9% | 75.5% | 51.8% |
| Food | 11.2% | 12.4% | 10.7% | 6.8% | 6.8% | 5.7% | 4.1% | 7.7% |

Interest Rates

| | Actual | | | | Projected | | | |
|-----------------------------------|----------|---------|----------|-----------|-----------|---------|----------|-----------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| Certificate of deposit (6 months) | 9.8% | 11.1% | 10.3% | 10.2% | 13.9% | 13.8% | 16.2% | 12.5% |
| Home mortgage (30-year fixed) | 9.9% | 10.4% | 10.5% | 11.1% | 11.8% | 13.0% | 16.5% | 13.5% |

Federal Deficit and National Debt

| | Actual | | | | Projected | | | |
|-----------------------------|----------|---------|----------|-----------|-----------|---------|----------|-----------|
| | QIV 1978 | QI 1979 | QII 1979 | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 |
| Federal deficit (billions)* | \$40.7 | N/A | N/A | N/A | \$73.8 | N/A | N/A | N/A |
| National debt (billions) | \$789 | \$797 | \$805 | \$827 | \$855 | \$866 | \$889 | \$914 |

*Data on the federal deficit are released once per year, in Quarter IV.

Proposed Options for Monetary Policy

Our economic analysts have outlined four possible options. Which would you recommend and why? You may choose one of these options or create an alternative option.

- Option A:** Make no change in monetary policy. Continue pursuing a moderate tight-money policy by selling government securities.
- Option B:** Pursue a more aggressive tight-money policy. In addition to selling government securities, raise the discount rate to encourage banks to keep more money.
- Option C:** Pursue a moderate easy-money policy by purchasing government securities.
- Option D:** Pursue an aggressive easy-money policy by purchasing government securities and lowering the discount rate to encourage banks to lend more money.

First Meeting of the Federal Open Market Committee



Bluebook 1

CONFIDENTIAL

FOLD

Fiscal Policy Overview

The federal government has been pursuing an expansionary fiscal policy. Upon taking office, the president proposed new government spending to reduce unemployment. The economy has created more than 7 million new jobs since 1977.

Since late last year, however, the federal government has expressed concern over rising prices. In his State of the Union address, the president called for the government to limit its spending. His proposed budget, for example, reduced the federal deficit.

In addition to these measures, the government has taken specific steps to fight inflation. One example is a call for voluntary wage and price controls. Another is the deregulation of certain industries to encourage competition.

Monetary Policy Overview

The Federal Open Market Committee has been pursuing a tight-money policy. Energy prices have risen dramatically in the past several months, and there is concern about inflation. To implement this policy, the FOMC has been selling government securities.

There is also growing concern about a recession. Projections of key economic indicators show a slowing of the economy. Although this possibility has been discussed at recent FOMC meetings, the committee has not voted for a change in policy.

At the most recent FOMC meeting, data showed that the economy was stronger than forecasted. Concerns about a recession may have been premature. At the same time, prices were rising much more quickly than originally expected.

SEPTEMBER 1979

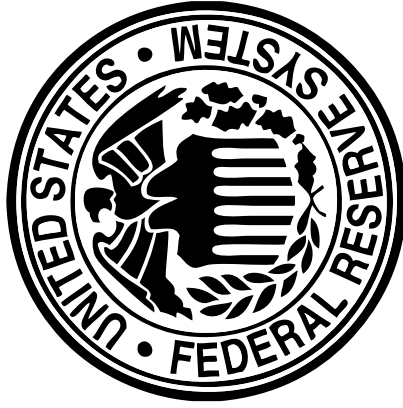
TO: MEMBERS OF THE FOMC
FROM: CHAIR, FEDERAL RESERVE BOARD
OF GOVERNORS
RE: UPCOMING MEETING

In preparation for our next meeting in October, please take time to review the information in the Greenbook and Bluebook. After reviewing the information in both books, discuss the questions below with your colleagues. Then determine your policy recommendation from the monetary policy options at the end of this book.

1. What is the most important concern for the U.S. economy? Support your answer with evidence from both books.
2. What are the likely effects of the federal government's fiscal policy?
3. Would a tight-money or an easy-money policy best address your concern for the economy? Which would best complement fiscal policy?

Once you have determined your policy recommendation, select and prepare a spokesperson to defend it at the upcoming meeting.

Second Meeting of the
Federal Open Market Committee



Greenbook 2



FOLD

Gross Domestic Product (in real dollars)

| | Actual | | | | Projected | | | |
|----------------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| GDP (billions) | \$5,189 | \$5,205 | \$5,221 | \$5,116 | \$5,106 | \$5,152 | \$5,234 | \$5,360 |
| GDP growth | 0.7% | 0.3% | 0.3% | -2.0% | -0.2% | 0.9% | 1.6% | 2.4% |

Civilian Employment

| | Actual | | | | Projected | | | |
|-----------------------------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| Number Employed (thousands) | 99,006 | 99,404 | 99,879 | 99,233 | 98,525 | 98,203 | 98,905 | 99,317 |
| Unemployment Rate | 5.7% | 6.0% | 6.3% | 6.9% | 8.1% | 8.5% | 8.8% | 7.5% |

Consumer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| All goods | 11.5% | 12.1% | 13.9% | 14.6% | 12.9% | 11.6% | 10.8% | 9.1% |
| Energy | 29.2% | 35.9% | 41.8% | 43.5% | 23.8% | 19.1% | 16.2% | 13.3% |
| Food | 10.3% | 9.8% | 9.0% | 7.2% | 6.6% | 6.2% | 6.0% | 6.6% |

Producer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| All goods | 12.5% | 14.3% | 15.4% | 14.2% | 14.7% | 14.3% | 10.2% | 10.2% |
| Energy | 36.7% | 55.4% | 60.8% | 75.2% | 50.4% | 30.5% | 25.0% | 21.7% |
| Food | 6.8% | 6.8% | 5.3% | 1.1% | 7.7% | 7.5% | 7.2% | 7.7% |

Interest Rates

| | Actual | | | | Projected | | | |
|-----------------------------------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| Certificate of deposit (6 months) | 10.2% | 13.8% | 13.5% | 15.8% | 8.5% | 9.7% | 9.2% | 10.1% |
| Home mortgage (30-year fixed) | 11.1% | 11.6% | 12.9% | 16.3% | 12.2% | 12.2% | 12.7% | 13.9% |

Federal Deficit and National Debt

| | Actual | | | | Projected | | | |
|-----------------------------|-----------|----------|---------|----------|-----------|----------|---------|----------|
| | QIII 1979 | QIV 1979 | QI 1980 | QII 1980 | QIII 1980 | QIV 1980 | QI 1981 | QII 1981 |
| Federal deficit (billions)* | N/A | \$73.8 | N/A | N/A | N/A | \$81.9 | N/A | N/A |
| National debt (billions) | \$827 | \$845 | \$863 | \$877 | \$910 | \$941 | \$975 | \$914 |

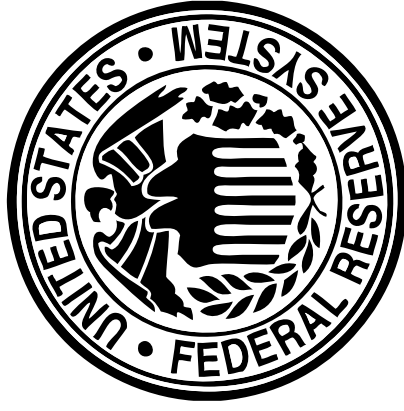
*Data on the federal deficit are released once per year, in Quarter IV.

Proposed Options for Monetary Policy

Our economic analysts have outlined four possible options. Which would you recommend, and why? You may choose one of these options or create an alternative option.

- Option A:** Make no change in monetary policy. Wait to see whether a recession happens.
- Option B:** Pursue an easy-money policy by lowering the discount rate again.
- Option C:** Pursue a more aggressive easy-money policy by lowering the discount rate again and eliminating the recent increases in reserve requirements.
- Option D:** Pursue an aggressive tight-money policy by raising the discount rate and keeping the recent increases in reserve requirements.

Second Meeting of the Federal Open Market Committee



Bluebook 2



FOLD

Fiscal Policy Overview

In fiscal policy, the president continued his efforts to reduce the federal deficit and balance the budget. When adjusted for inflation, his proposed budget spends nearly the same as the previous year's budget.

The government also continued its anti-inflationary measures. The president promised to work with businesses to keep prices down and with organized labor to limit wage increases. The government also continued deregulation to promote competition.

In a statement to Congress earlier this year, the president expressed concern that the unemployed would bear the costs of the government's anti-inflationary measures. If economic decline became a reality, he would consider tax cuts and temporary spending programs to create jobs.

Monetary Policy Overview

The Federal Open Market Committee has been pursuing an aggressive tight-money policy to control inflation. Energy prices have been out of control, and inflation rates are in the double digits. To implement this policy, the FOMC raised the discount rate twice in the past six months. It also increased reserve requirements for certain banks.

Recently, the FOMC has tried to address concerns about recession. Data show that the gross domestic product is predicted to decline at a faster rate than originally expected. It is forecasted to decline until the end of the year. The money supply also decreased noticeably in April and May. In response, the FOMC lowered the discount rate in May and June.

At the last FOMC meeting, data indicated that prices might again rise in response to the lowering of the discount rate. However, several committee members said they would be willing to accept higher prices to prevent a recession.

JUNE 1980

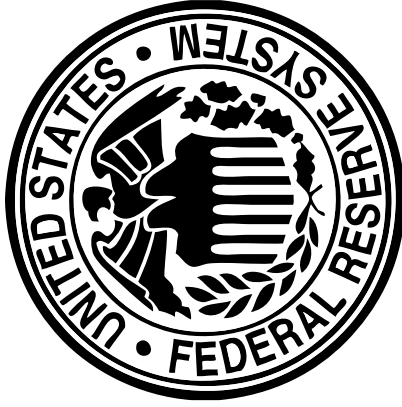
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2. What are the likely effects of the federal government's fiscal policy?
3. Would a tight-money or an easy-money policy best address your concern for the economy? Which would best complement fiscal policy?

Once you have determined your policy recommendation, select and prepare a spokesperson to defend it at the upcoming meeting.

Third Meeting of the
Federal Open Market Committee



Greenbook 3

CONFIDENTIAL

Gross Domestic Product (in real dollars)

| | Actual | | | | Projected | | | |
|-------------------|-------------|--------------|-------------|------------|-------------|--------------|-------------|------------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| GDP (billions) | \$5,226 | \$5,329 | \$5,263 | \$5,177 | \$5,198 | \$5,224 | \$5,229 | \$5,297 |
| GDP growth | -0.8% | 1.2% | -1.2% | -1.6% | 0.4% | 0.5% | 0.1% | 1.3% |

Civilian Employment

| | Actual | | | | Projected | | | |
|--------------------------------|-------------|--------------|-------------|------------|-------------|--------------|-------------|------------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| Number Employed (thousands) | 101,056 | 100,693 | 100,378 | 99,692 | 99,405 | 99,155 | 99,106 | 99,008 |
| Unemployment Rate | 7.2% | 7.2% | 7.9% | 8.6% | 9.3% | 9.8% | 10.4% | 11.8% |

Consumer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|----------|-----------|----------|---------|-----------|-----------|----------|---------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| All goods | 10.1% | 10.8% | 10.3% | 8.3% | 7.6% | 7.6% | 6.0% | 5.7% |
| Energy | 14.3% | 12.2% | 12.7% | 9.2% | 8.5% | 7.1% | 7.5% | 5.0% |
| Food | 9.6% | 8.4% | 5.8% | 4.4% | 4.9% | 5.6% | 4.4% | 4.6% |

Producer Price Index
(percent price change from a year ago)

| | Actual | | | | Projected | | | |
|-----------|----------|-----------|----------|---------|-----------|-----------|----------|---------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| All goods | 11.6% | 9.6% | 6.6% | 4.7% | 5.6% | 5.1% | 6.3% | 5.8% |
| Energy | 22.5% | 18.3% | 15.8% | 11.0% | 8.9% | 9.0% | 7.4% | 4.1% |
| Food | 9.7% | 6.7% | 2.5% | 2.2% | 3.1% | 2.1% | 3.5% | 2.7% |

Interest Rates

| | Actual | | | | Projected | | | |
|-----------------------------------|----------|-----------|----------|---------|-----------|-----------|----------|---------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| Certificate of deposit (6 months) | 15.1% | 17.4% | 15.7% | 14.3% | 15.4% | 14.8% | 10.7% | 9.5% |
| Home mortgage (30-year fixed) | 15.6% | 16.8% | 18.5% | 17.4% | 17.9% | 17.8% | 15.6% | 14.3% |

Federal Deficit and National Debt

| | Actual | | | | Projected | | | |
|-----------------------------|----------|-----------|----------|---------|-----------|-----------|----------|---------|
| | QII 1981 | QIII 1981 | QIV 1981 | QI 1982 | QII 1982 | QIII 1982 | QIV 1982 | QI 1983 |
| Federal deficit* (billions) | N/A | N/A | \$128.0 | N/A | N/A | N/A | \$205.7 | N/A |
| National debt (billions) | \$971 | \$998 | \$1,029 | \$1,061 | \$1,070 | \$1,152 | \$1,187 | \$1,245 |

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Proposed Options for Monetary Policy

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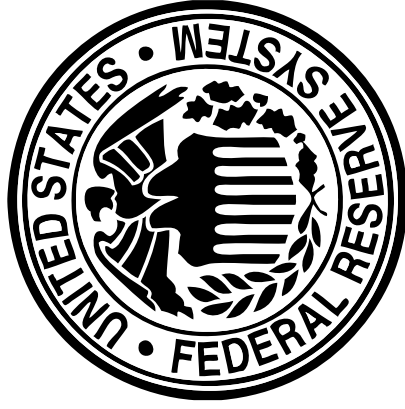
Option A: Make no change in monetary policy. Wait until the next meeting for an updated forecast on the economy.

Option B: Pursue a less-aggressive tight-money policy.

Option C: Pursue a moderate easy-money policy.

Option D: Pursue an aggressive easy-money policy.

Third Meeting of the Federal Open Market Committee



Bluebook 3



FOLD

Fiscal Policy Overview

This president was elected on a promise to cut taxes and reduce government spending. He believed that the ongoing recession was caused in part by high interest rates that discouraged capital investment. Cutting taxes would encourage businesses to invest. This, in turn, would stimulate the economy and create new jobs.

Last year Congress passed two measures that met the president's promises. One measure cut taxes. The other reduced government spending. Upon signing them into law, the president said taxpayers would gain \$750 billion over the next five years from the tax cuts and save \$130 billion over the next three years in reduced government spending.

In his State of the Union address, the president stated that his economic strategy of cutting taxes and reducing government spending was working. He pointed to lower prices and interest rates as evidence. At the same time, his proposed budget to Congress requested a substantial increase in defense spending.

Monetary Policy Overview

The past year has been a challenging year for the Federal Open Market Committee. The money supply has continued to grow rapidly, and prices remain high. Unfortunately, the economy also started to contract. Late last year, the FOMC admitted that the economy is in another recession.

The FOMC wants policies that can both reduce inflation and promote economic recovery. Because inflation is still the main concern, FOMC has pursued an aggressive tight-money policy to keep the money supply from growing too quickly. But the FOMC did lower the discount rate twice at the end of last year to stimulate the economy.

At the most recent FOMC meeting, data showed that prices were dropping. Some analysts believe this is evidence that the aggressive tight-money policy measures are working. However, projections also showed that real GDP will continue to decline and that unemployment will rise as well.

APRIL 1982

TO: MEMBERS OF THE FOMC
FROM: CHAIR, FEDERAL RESERVE BOARD OF GOVERNORS
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