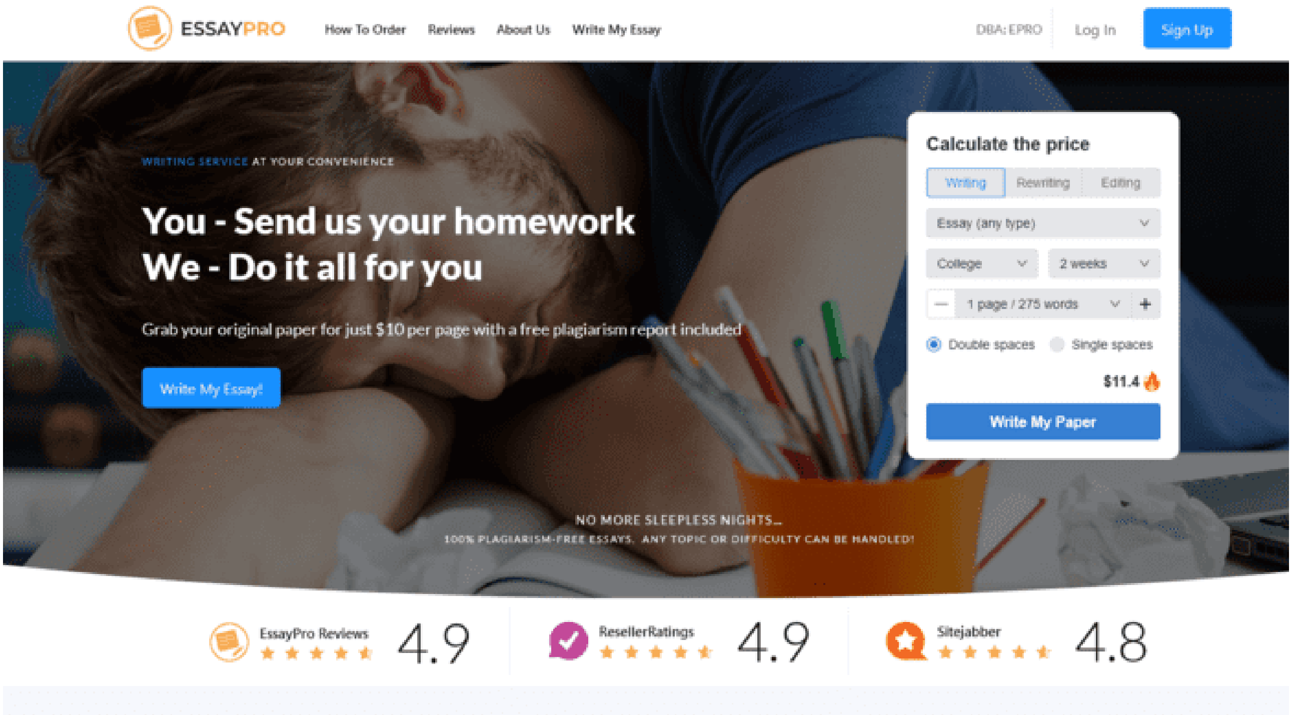
Macroeconomic Case Studies



ENTER HERE => https://bit.ly/abcdessay108

Macroeconomic Case Studies

The article titled ‘Fed Unlikely to Alter Course’ by John M. Berry of the Washington Post takes an interesting look at actions that Alan Greenspan his colleges of the Federal Reserve have been taking over the last 9 months to slow the economic growth of United States. The astonishing growth rate of 7.3% is fueled by an economy that is in the midst of a “high tech revolution”. The article also explores the contrasting view of other economists that say that the Fed has increased interest rates too much in its attempts to slow the economy.

The means by which Alan Greenspan and the Federal Reserve have chose to slow the economy is through a monetary policy, or more specifically, an increase in the national interest rate. The article states that the Fed officials have come to a “broad agreement that they will keep raising the rates until growth slows to a more sustainable pace to make sure inflation stays under control.” Because of the booming economy and the investment in the stock market the exchange of money has increased for goods and services, which in turn increases the price level or the quantity of money demanded. By increasing the interest rates the Fed commits itself to adjusting the supply of money in the United States to meet that rate at a point of equilibrium. If the interest rate is increased, less goods and services are demanded, and therefore will slow down the economy and reduce the rate of inflation. The article points out that as “stock prices have risen over the last couple of years, so have American household wealth and consumer spending.” This is precisely the cycle that Fed officials want to interrupt to slow growth before it fuels more inflation.

At the time this article was written the stock market prices had fallen sharply especially in the technology sector. But the Fed continued on the path to raise interest rates further noting that the index that they closely follow and contains a broader rage of public traded US stocks, the Wilshire 5000, is up for the year. Even though they began raising rates gradually 9 months ago, it takes almost a year for the economy to feel the full effects. In this case the results of the interest rates increased could be felt as last as the second half of 2000.