Barreto

Macro Topics

Money: The Fisher Effect

Open your answer to Task 5.

One person in the group creates a Word doc in the workshop folder (Day27MoneyFisherEffect) with your first names as the file name. One computer has this file open.

Part 1: Time on task: 10 minutes

As a group

~3 minutes each: Explain to the other members of your group your answer to Task 5. Talk through your scenarios and explain how they demonstrate that it is not high inflation that hurts lenders, but underestimating inflation.

Presumably, at the end of these mini-presentations and discussions, everyone is convinced that even high inflation, if anticipated and accurately forecasted, can be incorporated into the nominal interest rate.

Part 2: Time on task: 2 minutes

Individually: in the space below, write an answer to this question:

If even high inflation can be handled by a high nominal inflation rate, now we have a puzzle: why is inflation so feared—why is inflation so bad for the economy that central bankers (like Volcker during the monetarist experiment) are willing to trigger recessions to wring inflation out of the economy?

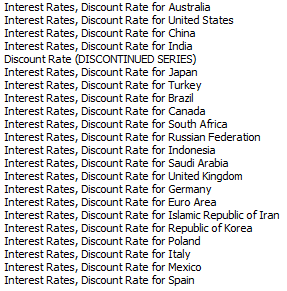
Part 3: Reconvene and discuss your answers and make sure that we all agree on the right answer. Take notes below.

Start Time: 3:20

Part 4: Time on task: 10 minutes

Individually

Use FRED to get inflation and the discount rate for a country from the list below. Each person in the group should do a different country. Draw a graph of the two series superimposed.



Part 5: Answer the questions below as a group in your group Word doc. Please provide a complete answer, listing the country and explaining why or why not.

1. Does the Fisher Effect work for each of the countries you examined? Explain.
2. If you had to predict inflation next month for each of the countries (presumably using past inflation as a guide), would it be equally challenging for each country? Explain.

Finally, just make sure we all understand this, write an answer to this question:

1. Why is inflation harmful to the economy?

HW: Watch the HP Filter screencast and complete the task by noon Friday.