

**Benjamin M. Friedman Paper:**

Recent macroeconomic stability notwithstanding, significant conceptual and operational questions remain about monetary and fiscal policy. The most fundamental is how central banks go about setting short-term interest rates. Today's typical practice, involving public announcements but few if any open market operations, bears little similarity to standard models in which more (less) bank reserves result in a new money market equilibrium at a lower (higher) interest rate. Second, through what behavioral mechanisms do interest rates affect nonfinancial economic activity? Familiar empirical findings fail to square with the facts of today's mortgage lending institutions or existing patterns of stock ownership. Third, is inflation targeting as currently practiced consistent with a U.S.-style "dual mandate" for the central bank? Open questions about fiscal policy include whether deliberately countercyclical fiscal action is effective in the short run, and whether the difference between one long-run level of government indebtedness and another matters for macroeconomic policy purposes.

JEL classification codes: E43, E51, E52, E58, E63