Re: When should the Fed act against inflation?

Source: http://sci.tech−archive.net/Archive/sci.econ/2006−06/msg00065.html

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- *From*: "The Trucker" <mikcob@xxxxxxxxxxx>
- *Date*: Fri, 16 Jun 2006 19:36:02 −0700

"puntontg" <tomrules111@xxxxxxxxxxx> wrote in message
news:1150481518.452918.36180@xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx

> root wrote:
>
> > Take two scenarios:
> > 1. the government runs a deficit, pumps money into the economy and
> > prices rise as a consequence.
> > 2. global demand for oil exceeds supply leading to an increase in
> > the cost of energy which trickles through the economy causing
> > an increase in prices.
> > What tools does the Fed use to differentiate between these two effects?
>
> For the second scenario the price index can be split into seperate
> parts and therefore major price rise in certain catergories can be
> noted and treated e.g. decrease tax on oil, (if you believe high oil
> problems are a bad thing?)
> The first scenario can be considered by looking at the rate of growth
> and other factors that increase aggregate demand e.g. rise in house
> prices and this can be controlled by adjusting interest rates.

The control of inflation through the use of interest rates on borrowed
reserves is a very inappropriate instrument to control inflation in that
the real economy must suffer greatly before the corrections can be
achieved. Appropriate tax policy can be a far superior tool. Also
see:

http://GreaterVoice.org/econ/glossary/inflation.php

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"I know no safe depository of the ultimate powers
of society but the people themselves; and
if we think them not enlightened enough to
exercise their control with a wholesome
discretion, the remedy is not to take it from

them, but to inform their discretion by
education." − Thomas Jefferson
http://GreaterVoice.org

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