FEDERAL RESERVE

Part 1

Listen to the first part of the video and choose the correct answer A, B, C or D to the questions below:

1. What was the Federal Reserve's decision regarding interest rates?
A) They reduced them significantly
B) They increased them slightly
C) They kept them unchanged
D) They removed them completely

2. What economic data was released by the U.S. Commerce Department?
A) The unemployment rate dropped below 2%
B) The second quarter GDP grew by 3%
C) Consumer spending doubled
D) Imports reached record highs

3. How did President Trump respond to the GDP announcement?
A) He praised the Commerce Department for accuracy
B) He insisted the Federal Reserve should lower interest rates
C) He criticized businesses for reducing imports
D) He warned that inflation was out of control

4. What is the main reason the Fed gave for maintaining its current approach?
A) They want more evidence on the impact of tariffs
B) They are confident inflation has already fallen
C) They believe unemployment will rise sharply
D) They fear the stock market will collapse

5. What was notable about the Fed's voting process?
A) All members voted unanimously in favor of cuts
B) Two members opposed the decision, preferring a rate reduction
C) Several governors abstained due to conflict of interest
D) A tie was broken by Chair Powell

6. Why did GDP figures shift so strongly between the first and second quarter?
A) Exports of technology goods increased dramatically
B) Real estate prices rose unexpectedly
C) Government spending on defence doubled
D) Imports first surged before tariffs, then declined after they were introduced

7. What are businesses and investors expected to monitor most closely going forward?
A) The effects of tariffs in the second half of the year
B) A sudden increase in consumer confidence
C) The introduction of a new minimum wage law
D) A decline in energy production

Part 2

Listen to the second part and fill in the gaps with missing words:

1. Consumer spending rose a little over ………………………… % in the quarter, compared with 0.5% previously.
2. A key factor behind the rise in spending was the purchase of ………………………… before tariffs came into effect.
3. President Trump set an August 1st ………………………… as a target date for trade deals.
4. If tariffs increase, importing companies may either absorb the extra costs or ………………………… them on to consumers.

Part 3

Listen to the third part and decide whether the following sentences are true or false:

1. A senior economic adviser described the day's financial reports as extremely positive.
2. The White House was disappointed with the GDP figures because growth slowed down.
3. The Federal Reserve decided not to alter borrowing costs during its latest policy meeting.
4. The deadline for trade negotiations has been postponed several times before finally being set for August.
5. The United States announced an additional tariff on products imported from China.
6. The American president criticized India for having strict restrictions on trade that are not financial in nature.
7. India was mentioned for relying heavily on energy supplies from Russia.

Part 4

Listen to the fourth part and fill in the gaps with missing words:

1. The White House announced a project with major ………………………... companies to improve access to medical data.

2. The initiative aims to make it easier for patients to transfer their health records when visiting a new ………………………...

3. The program is especially designed to assist older people and those with ………………………...

4. The overall purpose of the partnership is to ………………………... the process of accessing health information.

Discussion questions:

1. How do you feel about the importance of interest rates in everyday life?
2. Have you ever had to make a financial decision based on changes in interest rates?
3. What are your thoughts on how economic policies can affect people's lives?
4. Can you share an experience where you noticed the impact of inflation on your personal finances?
5. How do you think public understanding of economics and finance could be improved?
6. In what ways do you believe that government decisions influence the economy?
7. Do you think it's important for individuals to stay informed about economic issues? Why or why not?
8. How has your perspective on saving and spending changed over time?
9. What role do you think technology plays in shaping modern financial practices?
10. How do you approach discussions about money and finance with friends or family?

Why the Federal Reserve is split on the future of interest rates (The Economist, September 28th, 2024)

Read the text and put the sentences into appropriate gaps.

A single **dissent** on the Federal Reserve's interest-rate committee **garnered** plenty of attention last week. Understandably so. It marked the first time since 2005 that a Fed governor had opposed a rate decision. Michelle Bowman's disagreement highlighted concerns that a half-percentage-point cut might be excessive for an economy yet to **vanquish** inflation. **1.** ….

Unremarked, and perhaps more remarkable, was an utter lack of consensus on where the Fed's benchmark rate should ultimately land. The central bank's policymakers make projections every quarter. **2.** …. Of the 19 officials who made forecasts (the committee's 12 voters plus seven regional Fed presidents), a maximum of three agreed on any level for long-run rates. In all they made 11 different forecasts, from a low of 2.375% to a high of 3.75%.

Such a wide range obviously reflects a high degree of uncertainty. It also points to a fundamental problem with monetary policy: the extreme **fuzziness** of the neutral real rate of interest, a supposed guidepost for central bankers. Defined simply, the neutral real rate (or r-star, as it is known for short) is the rate that applies when the economy is growing at its exact potential, with inflation steady and employment at its stable maximum. **3.** ….

Although Fed policymakers do not forecast r-star in their quarterly exercise, it is easy enough to **glean** their implied views by subtracting their inflation projections from their long-term rate projections. Since all committee members believe that inflation is heading to the Fed's 2% target, what remains is their divergence on long-term rates. **4.** …. Now more than three-quarters of committee members think it is higher, possibly much higher.

R-star does not exist in observable reality, so there is no way of proving conclusively how high or low it is. Jerome Powell, the Fed's chairman, often harks back to John Henry Williams, an economist who drew on theology in explaining the neutral rate. **5.** …. That is a clever quip but also quite damning: the corollary of "knowing neutral by its works" is that economists are really only equipped to see it after the fact. If the economy is too hot, rates are presumably below neutral; if too cold, they must be above neutral. As a practical target for central bankers, **post-hoc** derivations of r-star are not much use.

But tune into debates about monetary policy, and much of the focus is on what exactly the neutral level might be. In a review published in 2021, Claudio Borio of the Bank for International Settlements, a club for central banks, discovered a dramatic increase in references to the natural rate of interest (often used interchangeably with the neutral rate) in recent years. Until the mid-2010s, the concept popped up in just five or so speeches a year by central bankers. By 2019 it appeared in more than 50 such speeches. Whereas economists once looked at monetary aggregates as a **lodestar** for central-bank policy, now they are more inclined to think in terms of r-star.

The current debate features two camps. **6.** …. Higher productivity growth, perhaps as a result of artificial intelligence, would push up potential growth and, as a result, r-star. More damagingly, higher fiscal deficits may also place upward pressure on the neutral rate. The other camp believes that long-running trends which weighed on rates before the pandemic are reasserting themselves—notably, an ageing population that saves more and innovates less. It is an important debate. **7.** ….

Economists have tried to come up with such measures via sophisticated models, as is their **wont**. One of the most influential is known as HLW (after the economists who crafted it), with regular updates published by the New York Fed. **8.** …. This would be inconvenient for the Fed rate-setters who assume that r-star is much higher in the post-covid world.

A. In this perfect equilibrium—a nirvana for central bankers—interest rates would be neither expansionary nor contractionary.
B. The first believes that neutral rates have risen in the wake of the covid-19 pandemic.
C. They believe, therefore, that the neutral real rate lies somewhere between 0.375% and 1.75%. Until recently, most Fed projections were anchored around a neutral real rate of 0.5%.
D. According to it, the neutral real rate has in fact fallen sharply over the past few years and is now at 0.75%, back to the lows seen after the global financial crisis of 2007-09.
E. Their latest update, published on September 18th, revealed that their views on long-term interest rates are the most dispersed since the Fed started publishing these "dot plot" projections in 2012.
F. Nevertheless, her 11 other voting colleagues all supported the cut—an indication of near-total **unanimity** on where the Fed should set rates today.
G. "Like faith, it is seen by its works," he wrote in 1931.
H. Yet it does not yield a solid measure for determining whether r-star has risen.

Vocabulary work:

1. **<u>Underline</u> at least 20 words connected to finance and economics in the text.**
2. **Find the words or expressions which match the definitions below in the text.**

1. to defeat completely……………………………………………..
2. the quality of not being clear to see or hear ……………………………………………..
3. a strong difference of opinion on a particular subject, especially about an official suggestion or plan or a popular belief ……………………………………………..
4. complete agreement among every member of group……………………………………………..
5. made or happening only after an event, not planned or decided before it happens……………………………………………..
6. to get or earn something valuable or respected, often with difficulty……………………………………………..
7. an example or principle that people want to follow……………………………………………..
8. the real neutral rate of interest that equilibrates the economy in the long run……………………………………………..
9. to collect information in small amounts and often with difficulty……………………………………………..
10. in the way that someone usually does……………………………………………..

Put the words in brackets into appropriate form.

1. The ………………..……………… among economists about interest rates has created confusion in the market. (agree)
2. Many experts consider the current interest rate a ………………………………………… for economic stability. (mark)
3. The ………………………………………… in the Federal Reserve's policy statements leaves many investors uncertain about future changes. (fuzzy)
4. Rising ………………………………………… could prompt the Fed to raise interest rates sooner than expected. (inflate)
5. The ………………………………………… in opinions between policymakers shows how complex interest rate decisions can be. (divergent)
6. ………………………………………… among board members is rare when deciding on interest rate adjustments at the Federal Reserve. (unanimous)
7. An ………………………………………… monetary policy aims to lower interest rates to stimulate borrowing and spending. (expand)
8. A ………………………………….…… approach may be necessary if inflation rates continue to rise significantly this year. (contradict)
9. Sustained ………………………………………… in the economy often leads to discussions about increasing interest rates by the Fed. (grow)
10. The ………………………………………… of the Fed's interest rate decision comes from multiple economic indicators and forecasts. (derive)
11. Improved ………………………………………… in the workforce can influence the Federal Reserve's decisions on interest rates. (produce)
12. There has been an ……………………… trend in interest rates over the past few months, impacting many loans. (up)
13. The latest report serves as an ………………………………………… that the Federal Reserve may consider lowering interest rates soon. (indicate)
14. As a …………………………………………, the last change in interest rates was influenced by international economic conditions. (refer)

The following collocations come from the reading passage. Rephrase each sentence using one of the following phrases.

a single dissent on the committee, to vanquish inflation, near-total unanimity on setting rates, an utter lack of consensus, extreme fuzziness of the rate, in perfect equilibrium, to look at aggregates for policy

1. There was only one person who disagreed on the committee.
2. Their goal is to completely defeat inflation.
3. Everyone almost entirely agreed on setting rates.
4. There was absolutely no agreement on the benchmark rate.
5. The rate was extremely unclear.
6. Everything was in a state of perfect balance.
7. They need to consider overall totals for policy decisions.

Comprehension questions

1. What significant event regarding the Federal Reserve's interest rate committee occurred last week, and why was it noteworthy?
2. Who is Michelle Bowman, and what was her stance on the recent interest rate cut?
3. According to the passage, what does the term "neutral real rate" (or r star) signify?
4. How did the projections of the Federal Reserve officials regarding long-term interest rates change as per the latest update mentioned in the passage?
5. What are the two opposing camps in the current debate over whether the neutral rate has risen following the COVID-19 pandemic?
6. What does the HLW model suggest about the neutral real rate, and why is this finding considered inconvenient for rate setters?
7. How does the passage describe the relationship between the neutral rate and the decisions made by central banks?
8. Why does the author consider the lack of consensus in the Fed's r star projections to be a positive development?