Lecture 24 will cover the following transparencies and Figures 1 - 4 of chapter 14 of the textbook.
Central Bank Independence

Factors making Fed independent

1. Members of Board have long terms
2. Fed is financially independent: This is most important

Factors making Fed dependent

1. Congress can amend Fed legislation
2. President appoints Chairmen and Board members and can influence legislation

Overall: Fed is quite independent
Other Central Banks

1. Bank of England least independent: Govt. makes policy decisions

2. European Central Bank: most independent—price stability primary goal

3. Bank of Canada and Japan: fair degree of independence, but not all on paper

4. Trend to greater independence: New Zealand, European nations
Explaining Central Bank behavior

Theory of bureaucratic behavior
1. Is an example of principal-agent problem
2. Bureaucracy often acts in own interest

Implications for Central Banks:
1. Act to preserve independence
2. Try to avoid controversy: often plays games
3. Seek additional power over banks
Should Fed be Independent?

Case For:
1. Independent Fed likely has longer-run objectives, politicians don't: evidence is better policy outcomes
2. Avoids political business cycle
3. Less likely deficits will be inflationary

Case Against:
1. Fed may not be accountable
2. Hinders coordination of monetary and fiscal policy
3. Fed has often performed badly