By Vincent J. Stinespring, Ph.D.

During the first session of the 114th Congress, the House of Representatives passed a new bill — H.R. 3189: the FORM Act of 2015 — that aims to constrain the discretion of the Federal Reserve (Fed) by mandating the Fed to follow a set of guidelines for the conduct of its monetary policy. The FORM Act would severely impair the Fed’s ability to carry out its congressional mandate to foster maximum employment and stable prices and would undermine its ability to implement policies that are in the best interest of American businesses and consumers. This legislation would severely damage the U.S. economy, were it to become law. Throughout 2015, the House of Representatives voted 241-188 (five of the Republican votes) on 10-15, to adopt so-called “rules-based” policies that have generated considerable debate. Supporters argue that a rules-based approach to monetary policy is the best way to promote and sustain economic growth. Opponents argue that the FORM Act aims to constrain the discretion of the Federal Reserve by establishing a set of guidelines for the conduct of its monetary policy, which may restrict actual central bank policy in the future.

The FORM Act requires the U.S. central banks to adhere to a clear, explicit and transparent rule that would be subject to public scrutiny. The FORM Act proposes that the Fed’s conduct of monetary policy be based on the Taylor Rule, a framework for setting interest rates that is designed to ensure that policy is consistent with a stable price level, full employment, and stable prices. The FORM Act would require the Fed to follow a set of guidelines for the conduct of its monetary policy, which may restrict actual central bank policy in the future. The FORM Act would severely impair the Fed’s ability to carry out its congressional mandate to foster maximum employment and stable prices and would undermine its ability to implement policies that are in the best interest of American businesses and consumers. This legislation would severely damage the U.S. economy, were it to become law.
Should the US Federal Reserve Be Forced to Adjust a Taylor-like Policy Paradigm?

simple policy rule in 1993 (“Taylor Rule: A PRINCIPLE Policy with Time-Varying Laubach-Williams Natural Rate of Interest”). The policy rule is given by

\[
\text{Target Fed Funds Rate} = \text{Lagged Inflation} - b_1 \times (\text{Actual Real GDP} - \text{Potential Real GDP}) + b_2 \times (\text{Natural Rate of Interest} - \text{Equilibrium Real Interest Rate})
\]

where \(b_1\) and \(b_2\) are weights on the real GDP gap and the time-varying natural rate of interest, respectively. The weights were set to 0.5 and 0.5, respectively, due to the perceived importance of both components in the policy rule. The policy rule was implemented in 1995 and continued to be used by the Federal Reserve until 2000, when it was abandoned in favor of a more flexible monetary policy.

The Taylor Rule was designed to provide a framework for setting interest rates and achieving macroeconomic objectives. It incorporates elements of both a rules-based approach and discretion, as it allows for adjustments based on economic conditions and goals.

The rule has been widely adopted by policymakers around the world, and its implications have been studied extensively. One key implication is that monetary policy should be guided by a clear and transparent rule that is responsive to economic developments.

In recent years, economists have modified the Taylor Rule to account for additional factors, such as the time-varying natural rate of interest and the output gap. These modifications have aimed to improve the rule's ability to guide policy in a changing economic environment.

The Taylor Rule has been praised for its simplicity and its ability to provide a clear guide for policymakers. However, it has also been criticized for its limitations, such as its inability to fully account for macroeconomic shocks and its focus on short-term economic indicators.

In conclusion, the Taylor Rule has been an influential policy tool for setting interest rates. Its legacy continues to be felt in the ongoing debate about the appropriate monetary policy framework.

References:


Source: Federal Reserve Bank of St. Louis and Author's Calculations

Figure 1.2: Effective Fed Funds Rate and Taylor Rule Policy Reference Rates ( Permanent Real GDP)

Effective Fed Funds Rate and Taylor Rule Policy Reference Rates (%)

Source: Federal Reserve Bank of St. Louis and Author's Calculations

Figure 1.1: Effective Fed Funds Rate and Taylor Rule Policy Reference Rates ( Permanent Real GDP)

Effective Fed Funds Rate and Taylor Rule Policy Reference Rates (%)

Source: Federal Reserve Bank of St. Louis and Author's Calculations

2 THE UNIVERSITY OF TAMPA
A second practical problem relates to the adoption of a Taylor rule in situations where inflation is above or below the preferred target level. The Federal Reserve has stated that it will maintain target interest rates at their current levels until inflation is near its target level. This statement has implications for how the Taylor rule should be applied in situations where inflation is not at its target level. Specifically, the Taylor rule suggests that interest rates should be increased in situations where inflation is above target and decreased in situations where inflation is below target. However, the Federal Reserve has stated that it will maintain target interest rates at their current levels until inflation is near its target level, which may indicate that the Taylor rule should be applied differently in these situations.

In addition, the Taylor rule is based on a number of assumptions that may not hold in all situations. For example, the rule assumes that the economy is in a steady-state equilibrium, which may not be the case in situations where there are significant changes in the economic environment. Moreover, the rule assumes that the central bank has perfect information about the state of the economy, which may not be the case in situations where there is uncertainty about the state of the economy.

These issues highlight the need for caution when applying the Taylor rule in situations where inflation is not at its target level. While the rule can provide useful guidance for setting interest rates, it is important to consider the specific circumstances in which it is being applied and to modify the rule as necessary to account for changes in the economic environment.
By John R. Swanton, Ph.D.

The economy of the Tampa Bay area continues to grow at a healthy pace. While sales and home building are strong, continuing job growth is essential to keep that momentum going. Overall, this has been a very positive year for the regional economy.

**Figure 1.4: US Potential GDP-CBO Projections ($ Trillions)**

As of December, the economy had recovered to within 1% of GDP potential, and the recovery was expected to continue at a moderate pace in the near term. The unemployment rate has declined to 4.4%, which is lower than the 5.5% rate that the Federal Reserve had projected in December of 2014.

**Figure 2.2: Duration of Job Loss in Tampa Bay**

The duration of job loss has continued to decline in recent months, with 50% of job losses lasting less than 12 weeks in December. The number of job losses in December was 18% lower than the average for the prior three months.

**Figure 2.3: Tampa Bay Employment Share by Sector**

The education sector continues to be the largest employer in the region, followed by healthcare and social assistance. The construction sector remains strong, with more than 10,000 job openings in the region.

**Figure 2.4: Housing Market Trends in Tampa Bay**

The housing market in Tampa Bay continues to recover, with home prices up 9.2% year-over-year in December. The number of homes sold has increased by 10% in the last six months, and the median home price is now $285,000.

**Figure 2.5: Tampa Bay Sales Tax Revenue by Sector**

Sales tax revenue in the education sector continued to lead all sectors, followed by healthcare and hospitality. The overall sales tax revenue has increased by 8% in the last year.
The Tampa Bay Economy: January Update

January Update

The bottom third of Tampa Bay's housing market — the Middle Tier segment — reached a maximum value of 279.07 in July 2006 before declining 63 percent to a low of 102.93 in November 2015. By November 2015, it had risen 35 percent above its low.

The Middle Tier segment — the Low Tier segment — reached a maximum value of 225.96 in May 2006 before declining 43 percent to a low of 126.32 in November 2011. By November 2015, it had risen 49 percent above its low.

The top third of Tampa Bay's housing market — the High Tier segment — reached a maximum value of 272.72 in July 2008 before declining 80 percent to a low of 52.32 in December 2011. By November 2015, it had risen 80 percent above its low.

The increase in housing prices in Tampa Bay contributed to an increase in the MBA Price-Rent Index (PRI), a measure of home prices relative to their implicit rental value. Using the S&P’s Case-Shiller aggregate PRI for Tampa Bay to represent price and the owner’s equivalent rent index (OWRI) to represent rent, the PRI is the HPI/OWRI ratio achieved in 1987. A PRI greater than one implies home prices are high relative to rents. A PRI less than one means that home prices are low relative to rents. Figure 2.6 indicates that from 2003 to 2007 home prices were high by 0.8 percent while a percent increase in neighboring MSA output by 0.1 percent while a percent increase in neighboring MSA output.

The Tampa Bay Economy: January Update

The Tampa Bay Economy newsletter is free for individual and organizational subscribers.

Write to Professor Stinespring at jstinespring@ut.edu

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring

The Tampa Bay Economy: January Update

Okun’s law for the Tampa Bay MSA economy with interesting results. New statistical technique known as spatial econometrics, Stinespring
January Update

Bay contributed to an increase in the MSA’s market — the Low Tier segment — reached a maximum of 244.56 in December 2011. By November 2015, it had declining 63 percent to a low of 102.93 in an individual could purchase a home and the cost required to rent the same home. As of that from 2003 to 2007 home prices were high relative to rents. Figure 2.6 indicates the PRI is the HPI/OWRI ratio representing rent, the PRI is the HPI/OWRI ratio.

In summary, recent data suggest cautious optimism. The labor market has been robust toward the end of 2015, the 2015 monthly average of 728 was a significant increase over the 2014 monthly average of 614.

The two researchers measured the impact on MSA unemployment from changes in both local MSA and neighboring MSA output. Their working paper entitled “Shibun’s Law at the Flexible MSA Level” estimates a percent increase in Tampa Bay’s output decreases its unemployment by 0.1 percent while a percent increase in neighboring MSA output decreases Tampa Bay’s unemployment 0.2 percent. The combined effect explains the 0.3 percent found at larger scale accessions.  

By Vivekanand Jayakumar, Ph.D.  

This newsletter is generously underwritten by:  

Thomas Financial

Rich Thomas  
University of Tampa, Class of ’72  
Chairman, President, and CEO of Thomas Financial  
Phone: (813) 259-9350  
rich@tfin.com

The Tampa Bay Economy newsletter is free for individual and organizational subscribers. To subscribe, visit: www.ut.edu/business/tampabayeconomy

RESEARCH CORNER: OKUN’S LAW FOR TAMPA BAY  

By John R. Stinespring, Ph.D.  

Understanding how increases in economic growth can lower unemployment is crucial for forecasting economic performance and attracting investment and industry. Okun’s Law, which establishes a relationship between economic growth and changes in unemployment, is a useful tool. Over the past six decades, economists have estimated Okun’s Law for the Tampa Bay MSA and neighboing metropolitan areas. However, recent data have suggested that Okun’s Law may not hold in the current economic environment.

In this article, we examine the validity of Okun’s Law for the Tampa Bay MSA and neighboring metropolitan areas and analyze the factors that may affect the relationship between economic growth and unemployment. We find that Okun’s Law does not hold in the current economic environment.

The Tampa Bay MSA’s economy has been characterized by slow growth and high unemployment. While the national unemployment rate has decreased in recent years, the Tampa Bay MSA’s unemployment rate has remained relatively stable. This indicates that Okun’s Law may not hold in this region.

We also analyze the factors that may affect the relationship between economic growth and unemployment. We find that the factors that affect the relationship between economic growth and unemployment in the Tampa Bay MSA are different from those in other regions. For example, the Tampa Bay MSA’s economy is more dependent on tourism, which is a more volatile industry than manufacturing or construction.

Overall, our findings suggest that Okun’s Law does not hold in the current economic environment. Further research is needed to better understand the factors that affect the relationship between economic growth and unemployment in the Tampa Bay MSA and neighboring metropolitan areas.