• More independent if allowed to set and control own budgets
• Fed is relatively independent
  o Daily policy actions of Fed not subject to review
  o Under no obligation to buy bonds
  o Controls own budget
• Countries where central banks are independent have lower rates of inflation
  o Not accompanied by lower output or unemployment
• Central banks that announce their targets typically provide additional information to the public
  o Reduces uncertainty
  o Anchors inflationary expectations
• Not strategic to announce a long-run target because these can be influence by factors no under the Fed's control
• The Fed does not announce an explicit target because it limits its flexibility to deal with unexpected circumstances
• Inflation Hawk: someone who is committed to achieving and maintaining low inflation, even at some short-run cost in reduced output and employment
  o Central banks with this reputation make it easier to anchor inflationary expectations
• Inflation Dove: someone who is not strongly committing to achieving and maintaining low inflation

Fiscal Policy and the Supply Side
• Supply-Side Policy: policy that affects potential output
• Interstate highway -- lowered costs of long-distance transportation and increased productivity and output
  o Spending on capital can affect aggregate demand and supply
• Reducing the federal funds rate increases aggregate demand
• A lower tax rate on interest income may increase people's willingness to save --> more investment in the long run and increase in output
• Reductions in tax rates may increase the number of hours people want to work due to higher opportunity cost
• Marginal Tax Rate: the amount by which taxes rise when before-tax income rises by one dollar
  o Lower tax rate --> people risker with investments, work more hours
• Average Tax Rate: total taxes/before-tax income

Policymaking: Art or Science?
• Perfect policy requires knowing:
  o Accurate knowledge of state of economy