- More independent if allowed to set and control own budgets
- Fed is relatively independent
    - Daily policy actions of Fed not subject to review
    - Under no obligation to buy bonds
    - Controls own budget
- Countries where central banks are independent have lower rates of inflation
    - Not accompanied by lower output or unemployment
- Central banks that announce their targets typically provide additional information to the public
    - Reduces uncertainty
    - 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
    - Central banks with this reputation make is 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
    - 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
    - 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:
    - Accurate knowledge of state of economy