

Answer on Question #38043 - Economics - Macroeconomics

Assignment

Would a rules-based monetary policy produce price stability?

Solution

A rules-based monetary policy is a monetary policy in which a jurisdiction rarely or never deviates from established norms. A rule-based monetary policy does not make exceptions based upon extenuating circumstances. So, it can produce price stability. For instance, during the period of the Great Moderation (1983-2000), the Fed pursued price stability through a rules-based monetary policy, effectively ignoring the employment half of its mandate.