

University of Connecticut - Stamford News

Written by Cullen Murphy

November 12, 2020

My Experience on the UConn - Stamford 2020 Fed Challenge Team



The image is a screenshot of a presentation slide. At the top center is the seal of the Federal Reserve Bank of New York, which includes an eagle and the text 'FEDERAL RESERVE BANK OF NEW YORK' and 'INCORPORATED MAY 18 1914'. In the top right corner, there is a small video feed showing a woman with long brown hair. Below the seal, the text reads 'Federal Open Market Committee' and 'Federal Funds Rate Recommendation and Policy Discussion'. Underneath that, it says 'Sep. 29th, 2020' and 'All Data Current as of 9/29/2020'. At the bottom, under the heading 'Presenters:', there are five names: You Kim, Cullen Murphy, Shayla Siljkovic, Eileen Zhu, and Rashana Weerasinghe.

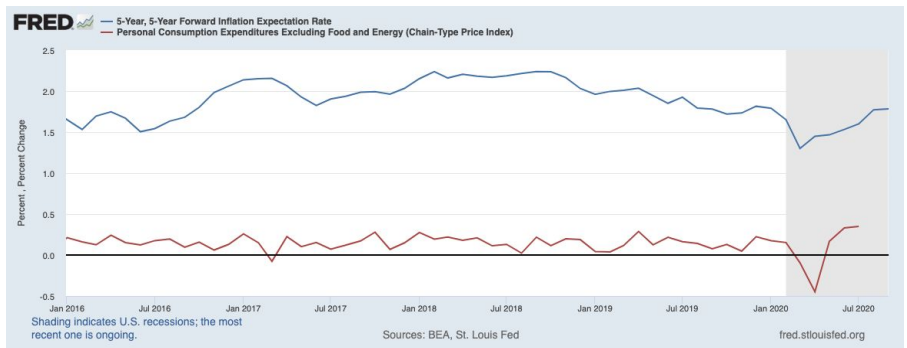
An Experience to Remember

When I first enrolled in Dr. Smirnova's Economics Practicum course, I was not quite sure what to expect. I had heard stories about this course and seen pictures of past Fed Challenge teams in the hallways on campus, but still had many questions upon joining the Fed Challenge Team. Regardless, prior to beginning classes for this course this semester, I was thrilled to be taking part in such a unique experience. Once classes commenced, I immediately knew that, at least until the end of the first round of the Fed Challenge, tasks would have to be completed at a relatively fast pace. Although this made the first few weeks of the course a bit more challenging, I know that the rigor and speed of these beginning classes provided me with a drive and wealth of knowledge that I would not have otherwise received. Because of the work and tasks we were given in the starting weeks of class, I feel as though the quick immersion I experienced allowed me to gain an immense understanding of my topic

(inflation). Whether I was developing multiple graphs relating to inflation using FRED or performing investigative research on inflation patterns and their meanings, the dense timeline of this course gave me a thorough understanding of a variety of economic indicators. If I were to change anything about this course, it would only be to possibly introduce ourselves or begin dividing our work for the Fed Challenge a bit earlier to ensure that everything is as organized as possible. However, as I previously stated, part of the reason why this course is so incredibly rewarding and informative is because we successfully complete a substantial amount of work in the first few weeks of class that is completely based on current research involving the economy.

What I Learned

The primary factor of the economy I researched during preparation for the Fed Challenge was inflation. To begin my research, I studied the primary indicator of inflation considered by the Fed when making projections, which is Personal Consumption Expenditure (or PCE). PCE, represented on this graph by the lower red line,



represented on this graph by the lower red line, dropped by 0.45% from about January 2020 to April 2020, which reflects the drop in consumption at the start of the pandemic. Expected inflation, represented by the upper blue line, also declined by nearly 0.6% from about January to March, which most likely resulted from the impact of COVID-19. The most recent PCE trend shows a steady growth of about 0.8% since April, which correlates with the reopening of businesses. Projections from the Federal Reserve Board predict that PCE inflation is to grow by about 1.2 percent in 2020 and about 1.7 percent in 2021. Inflation expectations have continued inclining by approximately 0.7%, which correlates with the gradual stability of businesses in the pandemic and increase of wages and production costs in the economy. Perhaps the clear correlation between these two inclines reveals that the most recent upward trend in PCE is related to the upward inflation expectation trend.

Completing this research allowed me to conclude that this evident inflation incline compliments the Fed's recent monetary policy change in August 2020, which involves the Fed's plan to allow inflation to increase past the usual 2% target rate. However, a risk may be faced: how will the Fed regulate inflation in the economy after it continues to increase and ensure that inflation does not continue to rise past the point of stability?

Because the inflation rate as of now is rising steadily and has not yet exceeded the 2 percent target, it is evident that the Fed's current plan to allow the inflation rate to continue increasing in order to allow wages to increase and unemployment to decline is ideal and should not be altered.

A Truly Rewarding Opportunity

None of these findings or final presentations would have been possible if it were not for the determination, focus, and diligence that this economics practicum course and its instruction instilled within each Fed Challenge team member. I was honored to take part in such a rigorous and topical challenge, and I encourage anyone interested in any facet of economics to consider becoming a Fed Challenge team member at UConn Stamford. This was truly an enriching experience that I will never forget, and I promise that those of you who ultimately decide to join will forever be grateful for this unique and real-world opportunity.