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**ECB & Fed
– A comparison**

By Christine Brandt

- **Economic areas and datas**
 - *Member states/districts, population,*
 - *GDP, unemployment rate...*
- **Institutional framework**
 - *Structure, objectives*
- **Discretionary versus rule-based monetary policy**
 - *Discussion of different conceptions*
- **Conclusion**



Economic areas and datas

Economic area and Data



1913 Founding of the Fed



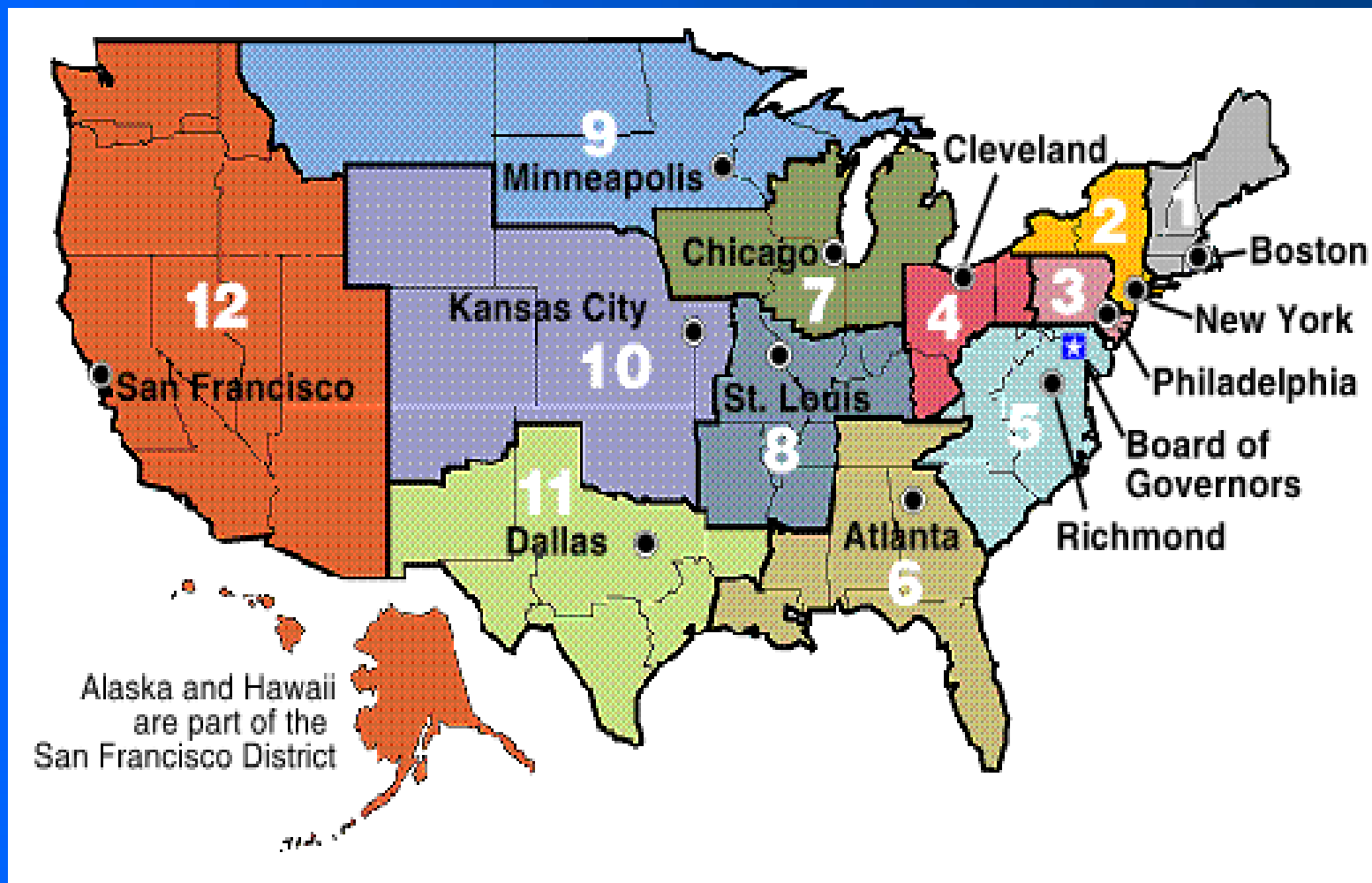
It was created to provide the nation with a safer, more flexible, and more stable monetary and financial system.

till Jan 2006 chairman Alan Greenspan

Feb 2006 chairman Ben Bernanke



The 12 districts



Economic area and Data



1988 The European Council confirmed the objective of Economic and Monetary Union (EMU)

1999 Establishment of the ECB,
fixing of the exchange rates,
11 participating member state

2001 Greece as new member

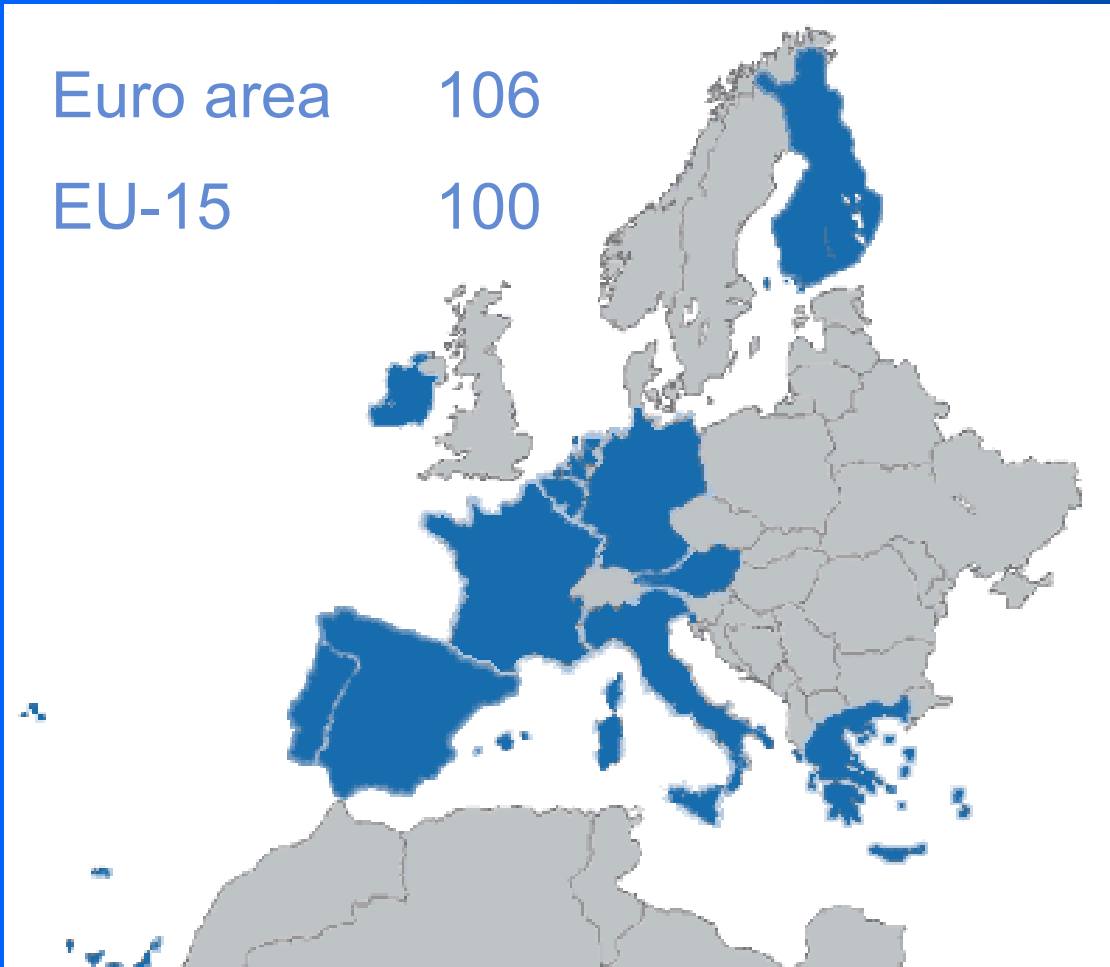
2002 Introduction of the Euro



12 States participate in the single currency:

Euro area 106

EU-15 100



Luxembourg	248
Ireland	137
The Netherlands	123
Austria	123
Belgium	118
Finland	112
Germany	110
France	109
Italy	103
Spain	99
Greece	87
Portugal	71

Economic area and Data



	Euro area	USA
2004		
	12 countries	12 districts
GDP share of world	15.3 %	20.9 %
GDP per capita (ppp)	24.400 €	34.700 €
Population	309.7 million	294 million
Employment rate	62.8 %	71.2 %
Unemployment rate	8.8 %	5.5 %

Economic area and Data



	Euro area	USA
Countries	12 different countries	1 country
GDP	unequally distributed	evenly distributed
	heterogeneous	homogeneous



Institutional framework

Federal Open Market Committee

Board of
Governors

7 chairs

5 of 12
regional Feds

Rotation

Bank of N.Y.

Federal Open Market Committee (7+5)

Board of
Governors

7 chairs

5 of 12
regional Feds

Rotation

Bank of N.Y.

➔ Majority of the Board

Structure of the ESCB



Governing Council

ESCB

EUROSYSTEM

Executive Board

6 chairs

12

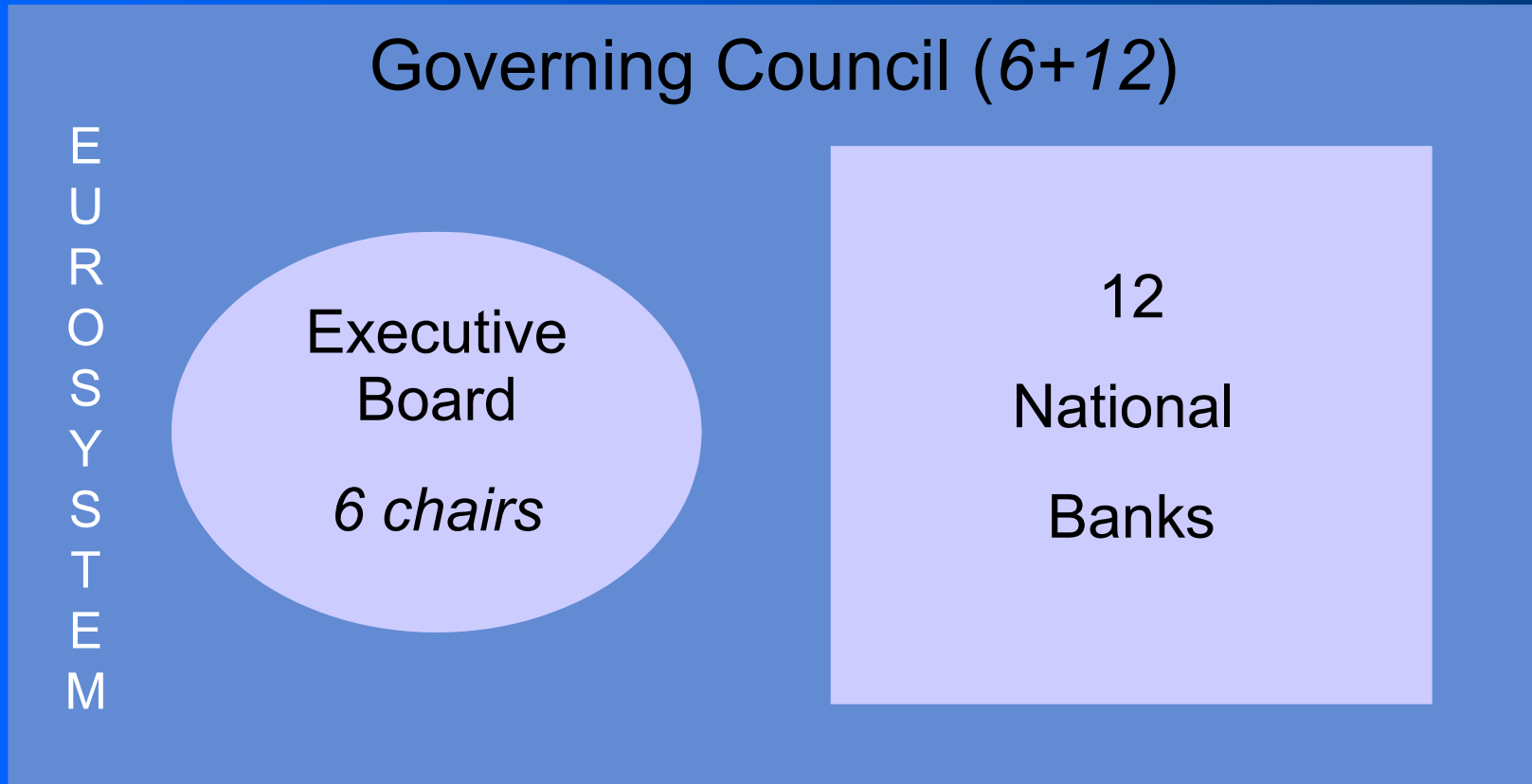
National

Banks

+13 National Banks

General Council

Structure of the ECB



➔ Majority of the National Banks

The Federal Reserve's duties are

conducting the nation's monetary policy by influencing the monetary and credit conditions in the economy in pursuit of

- maximum employment,
- moderate long-term interest rates, and
- stable prices.

What is inflation?

Inflation means that the general level of prices of goods and services is increasing.

When inflation is rapid, the prices of goods can increase faster than consumers' income, a dollar buys less and less over time.

When inflation is low and stable, businesses and households can make better spending and investment plans.

The Federal Reserve's duties are

helping to encourage a healthy economy.

The actions influence the availability and cost of money and credit,

which affect a range of economic variables, including output, employment, and prices of goods and services.

At each of its meetings, the FOMC decides whether or not to change its target for the federal funds rate, and if so, by how much.

"The primary objective of the ESCB shall be to maintain price stability".

„...the ESCB shall support the general economic policies in the Community....“

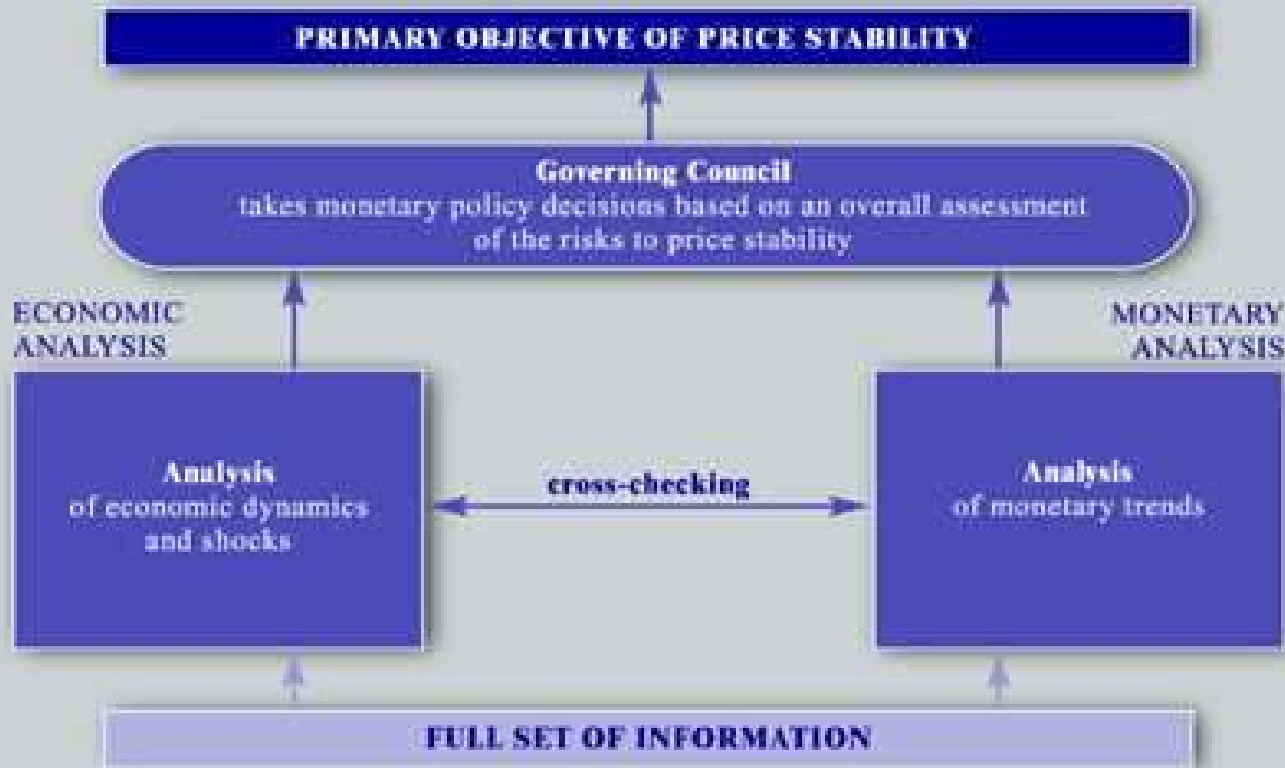
(Treaty article 105.1)

Quantitative definition of price stability

"a year-on-year increase in the
Harmonised Index of Consumer Prices (HICP)
for the euro area of below 2%.
Price stability is to be maintained over the medium
term".

Two-pillar approach

The stability-oriented monetary policy strategy of the ECB



Long-run neutrality of money

In the long run a change in the quantity of money in the economy will be reflected in a change in the general level of prices.

But it will not induce permanent changes in real variables such as real output or unemployment.

Differences of the framework



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	ECB	Fed
structure	majority of the NCB	majority of the Board
objectives	pricestability	full employment, stable prices, moderate interest rates
stategy	two-pillar approach rule-based monetary policy	case-by-case discretionary monetary policy
doctrine	long-run neutrality of money Neo-classical	affect economic variables Keynesian



Discretionary versus rule-based monetary policy

Conclusion



Rule-based = One response to every economic situation	Discretionary = Come to a decision case-by-case
+ consistency + plausibility + predictable + quick decisions	+ flexible + best reaction
ECB & € - A new central bank and currency - A heterogeneous area	Fed & \$ - An established central bank and currency - A homogenous area