Questions related to Paul Volcker on Price Stability

1. Why is “the stability of our currency” important?

2. Volcker makes the point that, once inflation takes hold, the inflationary process feeds on itself. Explain how this might work.

3. How does Volcker characterize what had to be done in the 1980s to bring down the growing inflation of the 1970s? (1970s inflation would peak at 14% in 1980.) Was inflation under control during the thirty years that followed?

4. The Federal Reserve formally adopted a 2% inflation target in 2012. What do you think is Volcker’s biggest concern about the idea of a 2% target?

5. Does Volcker believe it is possible to “fine-tune” inflation? Explain.

6. According to Volcker, when is the only time that deflation is truly a problem? What often accompanies rising inflation, which could in fact become a serious problem?

7. What are the two policy objectives that the Fed needs to emphasize?