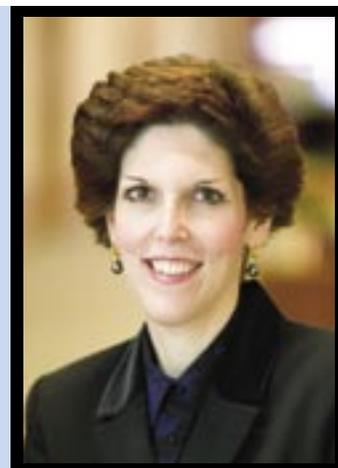




Visiting Scholar Jan Brueckner of the University of California-Irvine meets with members of the Bank's Research Department to discuss his latest research.

# Teaching Others About the Economy: Research's Role

The Research Department plays many different roles within the Bank and the Federal Reserve System. We talked with Philadelphia Fed Director of Research Loretta J. Mester to find out what Research does to promote the Bank's education efforts.



Loretta J. Mester, Ph.D.  
Senior Vice President &  
Director of Research  
Research Department

**Q: Tell us about the Research Department's educational roles.**

**LJM:** The department does many different things to educate its various constituencies. Our main responsibility is to brief President Santomero in preparation for Federal Open Market Committee (FOMC) meetings. But we also try to educate the public on current economic conditions and economic research.

Our economists give speeches on the economic outlook. They also write articles for the department's flagship publication, *Business Review*.

We also talk to reporters to help them better understand various aspects of the economy. In turn, they can better explain the economy to their readers.

Of course, we also work to advance knowl-

edge within the economics profession by disseminating our research worldwide.

**Q: What is the department's role in preparing President Santomero for the FOMC?**

**LJM:** Our economists brief President Santomero on current economic conditions, and we develop forecasts of the economy and discuss the risks to those forecasts. We analyze forecasts from others as well. We point out different options for monetary policy and the reasoning behind those options. Preparation for the briefings is quite lengthy and entails gathering and analyzing data and applying various economic models to the current economic situation to develop appropriate policy recommendations.

**Q: How does the *Business Review* fit into Research's educational role? Isn't the material highly technical?**

**LJM:** The work our economists do is often highly technical. However, in the *Business Review*, we distill the technical material into a form that is accessible to educated lay readers. We want readers to understand economic issues, but not necessarily all of the technical details.

We should note that our *Review* differs from those of many of the other Reserve Banks. Our *Business Review* articles are aimed at an educated lay audience — people who are interested in economic issues but who are not economists. One way we measure our success in this area is by the number of requests we get to include *Business Review* articles in reading materials for college courses and books of readings that accompany textbooks. And we've been highly successful on that front.

**Q: What about the department's other publications? How is the information gleaned from your economic surveys used?**

**LJM:** Our surveys are used in current analysis of the national and regional economy. For example, the Survey of Professional Forecasters and the Livingston Survey report measures of inflation expectations, along with forecasts of other economic variables. These measures of expectations are important variables in setting monetary policy, and they're also used as a data source in economic research.

The department's Business Outlook Survey (BOS) of regional manufacturers is used for regional analysis. Because it comes out earlier than other measures of the national economy, the information in the BOS is also used as an early forecast of trends in the national economy.

**Q: Do your reports literally move markets?**

**LJM:** They can. The BOS has been known to move markets. Traders read the survey immediately upon its release, and movement in the markets is sometimes attributed to survey results that have come out differently than market participants expected.

**Q: Can you tell us about the department's conferences and forums?**

**LJM:** The Research Department sponsors several conferences a year that span the various interests of the Bank's research efforts. Since 2001, we've been hosting the Policy Forum, a large macroeconomic conference that brings together policymakers, academics, market economists, and members of the press. The Policy Forum's partici-

pants discuss relevant issues that the Federal Open Market Committee will need to deal with in the coming years.

We also co-sponsor a macroeconomics workshop each year with the University of Pennsylvania's Economics Department.

In 2005, we will have several events. In April, we will hold a conference on immigration. In June, we'll be co-hosting a conference in Berlin, Germany, on "Bank Relationships, Credit Extension, and the Macroeconomy." Our co-sponsors are the German Institute for Economic Research and the *Journal of Financial Intermediation*. In September, we will co-sponsor a conference on issues in consumer credit and payments with the Bank's Payment Cards Center.

These conferences serve several purposes. They inform us about cutting-edge research on the conference topic and bring together researchers with common interests, which can spur collaborations. They also advance the research agenda on these topics by illuminating which questions remain open.

The annual  
Policy Forum brings  
together policymakers,  
academics, market  
economists, and  
members of the press.

**Q: How is your department’s research disseminated to other institutions?**

**LJM:** The web is the premier medium through which we disseminate early versions of our research. Since the web is a global instrument, our economics colleagues around the world have access to our papers. But even before the final working paper is produced, economists have been exchanging ideas by presenting seminars at other institutions and confer- ring with colleagues. In addition, we sponsor our own seminar se- ries and visiting scholar program, through which we bring in other economists to discuss their re- search.

In effect, economists “vet” their work by presenting it to other economists. We also send our pa- pers to academic and Fed libraries and post them to online databases such as the Social Sciences Re- search Network. Ultimately, we revise our work based on the feedback gleaned from presenting and discuss- ing our work, and then submit papers to academic jour- nals. This starts another round of revisions as authors respond to referees’ comments before the work is finally published in the journal.

**Q: How does the Bank’s Research Department help the Philadelphia region?**

**LJM:** Over the years, we’ve helped various institutions in the area by supplying data, reviewing their analysis, and offering policy advice. In 2004, our chief regional economist attended the Mayor’s Economic Summit to discuss the economic future of Philadelphia.

We produce articles on the region, either as stand-alone reports or as part of our *Business Review*, which contain information about some aspect of the lo- cal economy. Various city organizations have used this information in their policy discussions.

**Q: Is any of your work international in nature?**

**LJM:** Economics itself is international in scope. As I mentioned earlier, our research is disseminated through the web, both on the Bank’s own web site and on various databases. Some of our economists focus on topics such as international economics and trade.

We have set up economist exchange programs with both the Bank of Sweden and Bank of Canada.

Their economists come to the Philadelphia Fed for a week or so, and we then send one of our economists to their central bank for a week. This helps create closer ties among central bank staff, who often are researching similar types of economic questions. It also enables our economists to gain a broader perspective of world economic conditions.

Over the years, the Research Department has helped various institutions in the area by supplying data, reviewing their analysis, and offering policy advice.

**Q: Do the other 11 Reserve Banks’ Research Departments work the same way?**

**LJM:** Our general goals are very similar. Certainly, briefing a Reserve Bank’s president for the FOMC is a critical function of all Research departments in the System. Of course, regional knowledge is the unique item each Reserve Bank president brings to the FOMC meetings.

Some System departments emphasize different areas of interest, depending on their location. For example, Reserve Banks in the Midwest may do more research on agriculture-related economic issues. Some departments may emphasize shorter term current analysis, while others emphasize longer term research. Most of the Reserve Banks, including our own, have a mix of these activities.