Figure 1: Checkable Deposits and Currency

Figure 2: Real M2

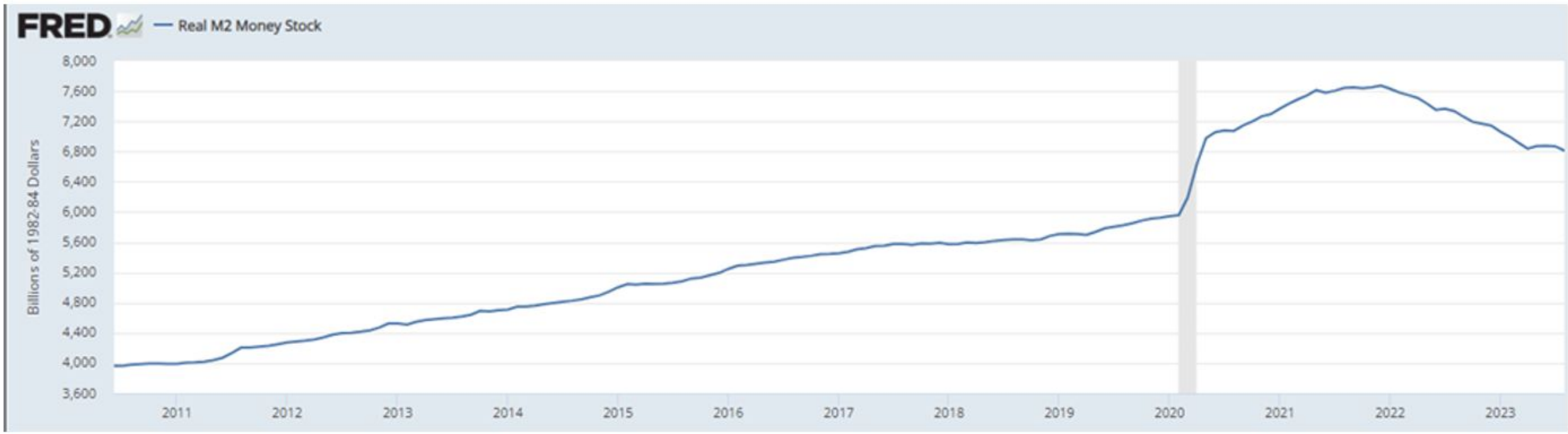


Figure 3: Sticky-Price and Flexible-Price Inflation

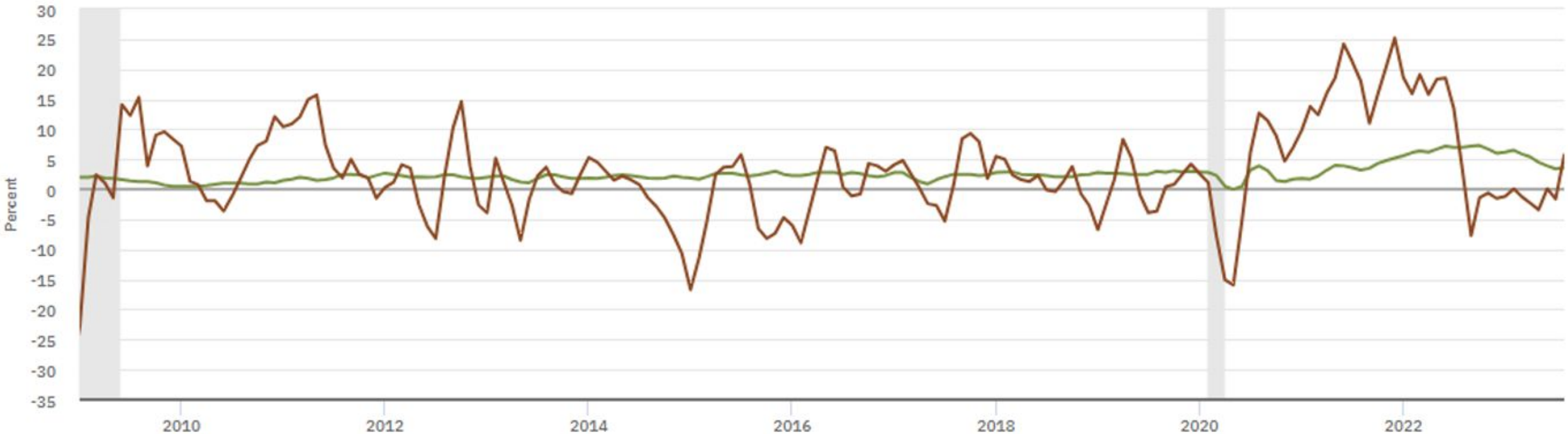


Figure 4: Personal Saving

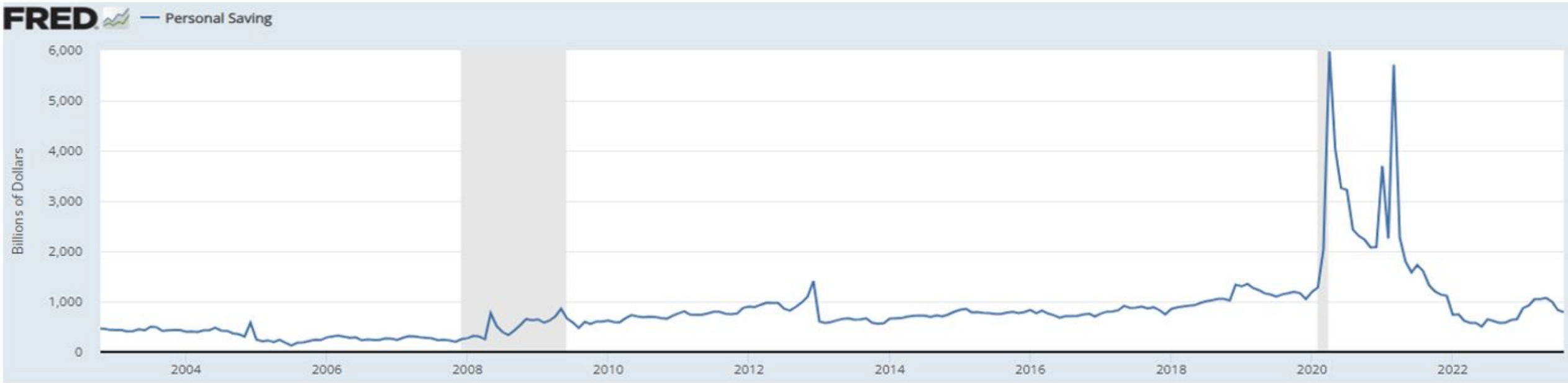


Figure 5: Personal Saving Rate

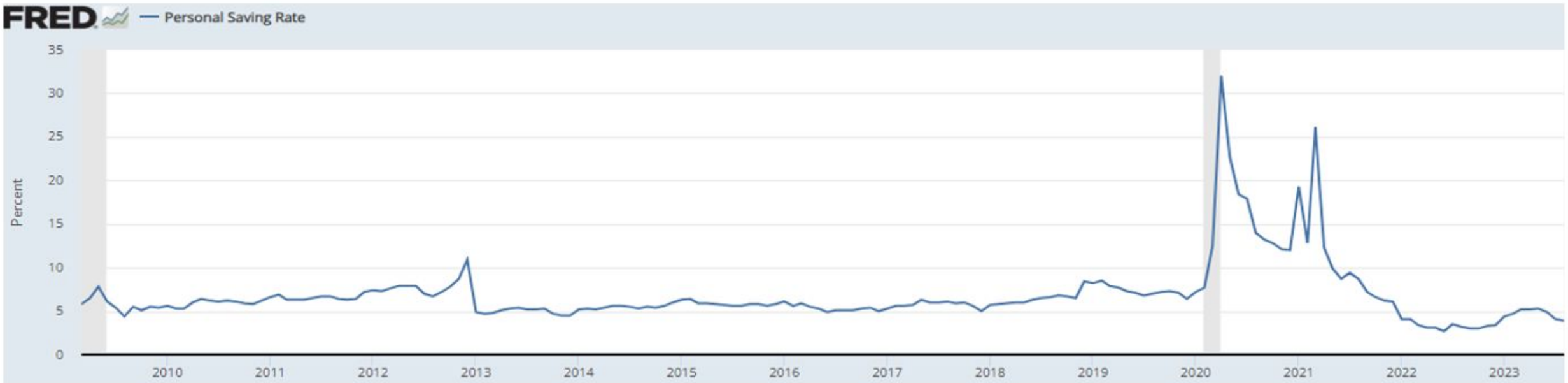


Figure 6: Real Household Liquid Assets

Figure 7: Household Debt to GDP

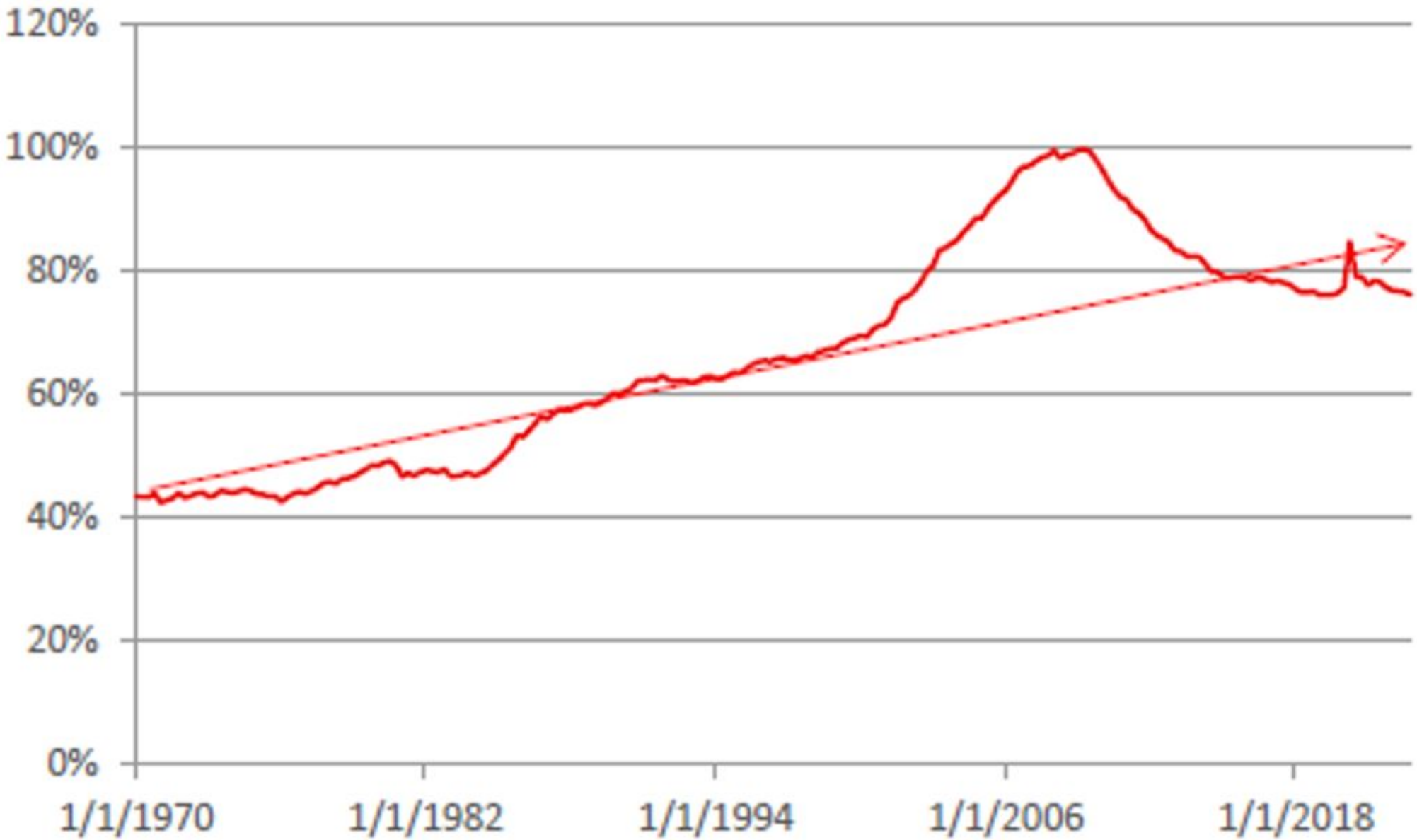


Figure 8: December 2024 Fed Futures Contract

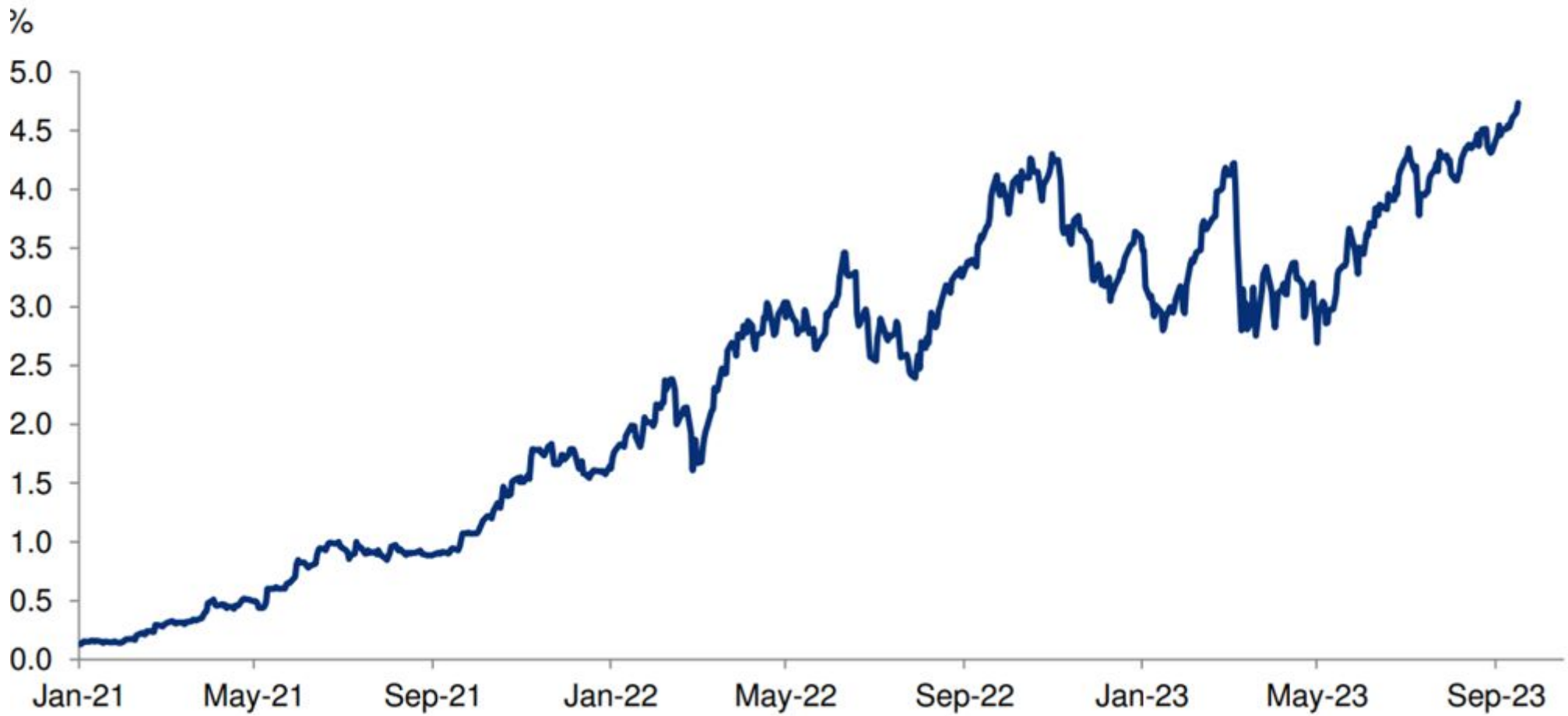
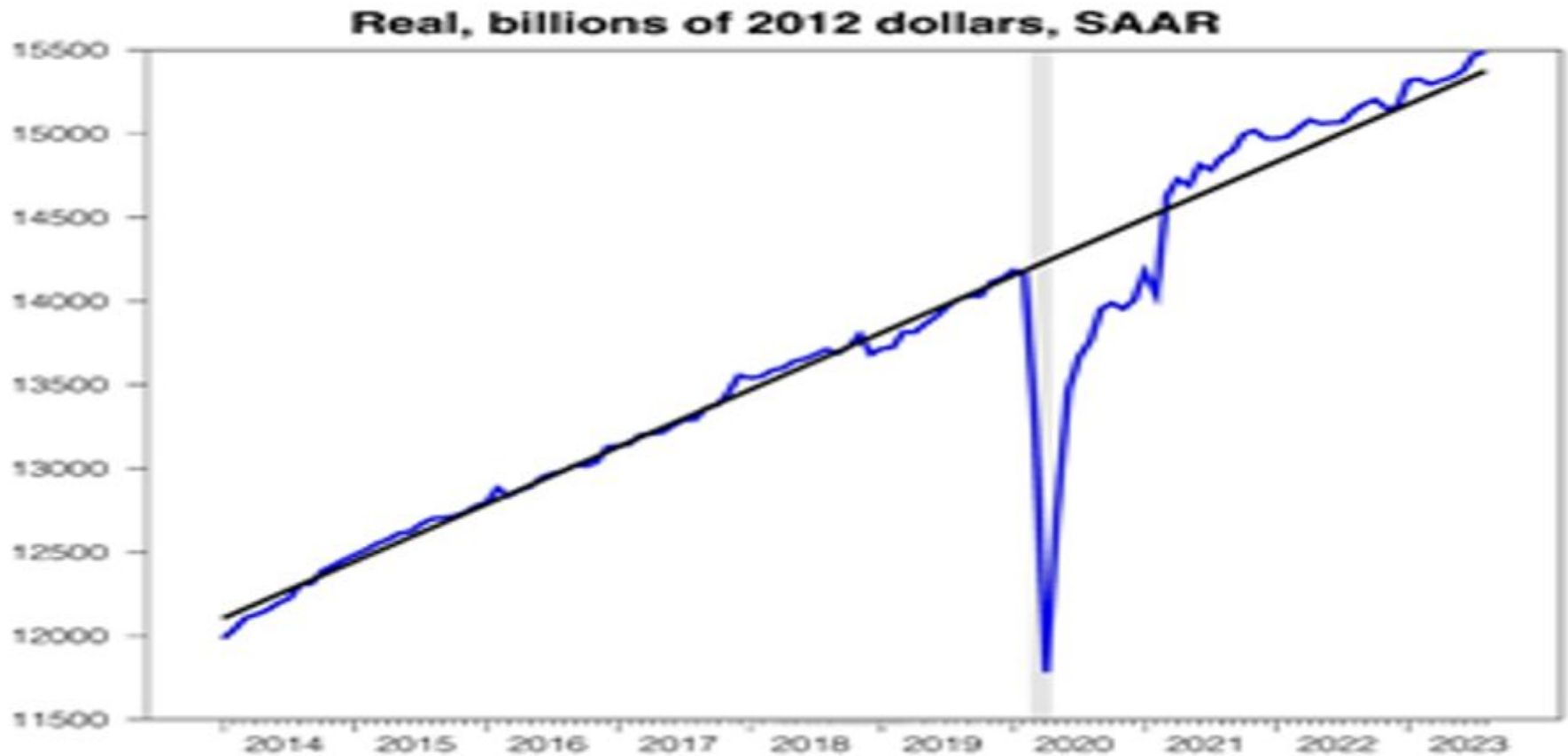


Figure 9: 5-Year, 5-Year Forward Inflation Expectation Rate

Figure 10: Personal Consumption Expenditures



(1) $r_t^n = \rho_t + s^{-1} E_t(\Delta y_{t+1}^n)$

where y_t^n is the natural rate of output expressed in logarithms, ρ_t is the subjective rate of time preference with $\rho \equiv -\log \beta$, s is the intertemporal elasticity of substitution in consumption, and Δ is the first difference operator. The output gap equals $\tilde{y}_t \equiv y_t - y_t^n$ with y_t equal to (the logarithmic value) of output. Using (1) and its counterpart expressed in actual values of the real rate of interest and the output gap (the household Euler equation) and solving forward yields (2).

(2) $\tilde{y}_t = -s \sum_{k=0}^{\infty} E_t(r_{t+k} - r_{t+k}^n)$

That is, the output gap equals the sum of future interest-rate gaps between the real rate of interest and its natural counterpart. Finally, (3) expresses the NK Phillips curve.

(3) $\pi_t = \beta E_t[\pi_{t+1}] + k \tilde{y}_t$