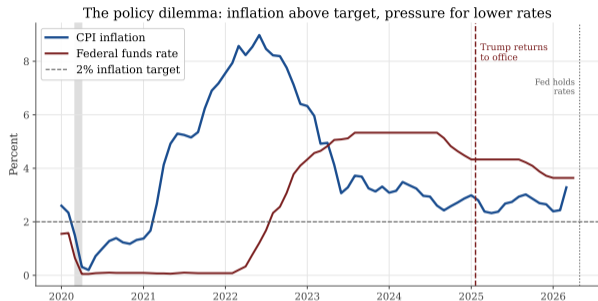


Case study: Trump, Powell, and interest rates



Source: FRED, Federal Reserve Bank of St. Louis, CPIAUCSL, FEDFUNDS, USREC.

In 2025–26, President Trump pushed publicly for lower interest rates. Powell and the Fed emphasized the dual mandate: maximum employment and 2 percent inflation. On April 29, 2026, the FOMC held rates at 3.5–3.75 percent.

Use the graph to discuss:

1. Why might the president prefer lower interest rates?
2. Why might the Fed hesitate to cut rates when inflation is above target?
3. In IS-MP, what happens when the central bank lowers R_t ?
4. How can tariffs or energy prices create a price shock in the Phillips curve?

Case study: independence and the policy trade-off



Source: FRED, Federal Reserve Bank of St. Louis, CPIAUCSL, FEDFUNDS, UNRATE, USREC.

The Fed can support demand by lowering R_t , but it also wants inflation expectations to stay anchored.

Discuss with the short-run model:

$$\tilde{Y}_t = a - b(R_t - r^*), \quad \Delta\pi_t = \theta\tilde{Y}_t + o_t.$$

1. If the Fed cuts rates too much, what happens to the output gap?
2. What does the Phillips curve predict for inflation?
3. If a price shock raises inflation while demand weakens, why is policy harder?
4. Why does central bank independence matter for credibility?