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Subject

Date

Media Project

**Summary of Article**

The Federal Reserve had cut the interest rate three times this year. One of the officials of Federal Reserve announced that further cut in the interest rate was not an option unless we see some disturbances in economic data. President Trump urged the officials of the Federal Reserve to cut down the interest rate to boost economic activity. Fed was an independent institute and it decided to keep its interest rate policy unchanged for December 2019. In 2018, the policy of the Fed was to raise the interest rate but trade war with China decelerated the economy and decrease in the interest rate became the necessity of time. It was not clear at that moment that how Mr. Trump looked at the possibilities of a trade deal with China. In case of any trade deal, the Fed had to rethink its policies.

The current economic outlook is stable as unemployment is at 3.6% which is the lowest in the last 50 years. The wage growth rate is stable and inflation is increasing significantly. So, there is no need for an increase in the interest rate. But a permanently lower level of inflation can change the future expectations of businessmen. They will perceive a lower growth in future prices and will cut down their production level which can slow down the economy (Smialek).

**Analysis of Trends**

Significant changes could be seen in the interest rate during the last two years. At the start of 2018, the interest rate was 1.50% and the Fed increased the interest rate three times in 2018. The interest rate was 2.25% at the end of 2018. In 2019, the Fed cut down the interest rate three times and it was at the level of 1.50% at the end of October.

Unemployment is another important indicator of the economic performance of a country. The unemployment rate in the US was decreasing continuously since 2010 (*Employment | U.S. Bureau of Economic Analysis (BEA)*). The inflation rate remained stable during the last 12 months. It varied from 1.5% to 2.5% during the same period and was on the level of 1.8% in October this year (“United States - Monthly Inflation Rate October 2018/19”).

**Application of Macroeconomic Theory**

The interest rate is one of the key tools that can be used for monetary policy. The Fed can adjust the interest rate according to the macroeconomic outlook and environment of the economy. The American economy slowed down a little due to the trade war with China and the fed continuously decreased the interest rate to stimulate the economy. Any decrease in the interest rate will first affect the levels of investment. Investment in different projects becomes more profitable if the borrowing cost is low. An increase in investment can boost the economy and unemployment can also decrease. Another impact of lowering the interest rate over the exchange rate of the currency by decreasing the capital inflows in that country. The decrease in the interest rate in the US will depreciate the US dollar which can help the US economy to increase its exports and decrease its imports. Lower interest rates in the economy at the time of trade war with China will provide the economy with a boost by making investment more attractive.

**Concluding Remarks**

Federal Reserve is responsible for the determination of objectives and tools of monetary policy. Fed adjusted its policy according to the economic conditions to stabilize the economic outlook of the county. The recent trade war with China can harm the US economy and become a source of depression. The Fed is using the interest rate as a tool to cope with this situation. Fed is continuously decreasing the interest rate which provides the country with a stable economic outlook. Fed's timely interest rate adjustments weaken the negative impacts of the trade war with China.

**Works Cited:**

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