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Highlights

- Tomorrow, November 8th, Fed Chairman Ben Bernanke will testify before the Joint Economic Committee on the US Economic Outlook.
- What are the important issues that should be addressed? Here we provide a cheat sheet for members of Congress.

Pop Quiz for the Fed Chairman: Congressional Cheat Sheet

Tomorrow, November 8th, Federal Reserve Chairman Ben Bernanke will appear before the Joint Economic Committee of Congress to testify on the US Economic Outlook.

(<http://jec.senate.gov/Documents/Releases/10.31.07Bernankehearingadvisory.pdf>)

Members of Congress will undoubtedly bombard Mr. Bernanke with questions about how the Fed is planning to help subprime borrowers who have fallen behind on their mortgage payments. However, there are several pressing issues that need to be addressed and it is in this spirit that we have come up with a cheat sheet for those on Capitol Hill who will be asking the questions.

- 1) The US dollar has tumbled sharply in recent weeks. Are you concerned by the magnitude of the recent move or do you view this as an orderly adjustment?
- 2) Oil prices are up more than 30% since August with NYMEX Crude trading at more than \$95 dollars per barrel. Do you believe that the US economy can withstand the shock of higher energy prices given its fragile state?
- 3) Many private sector economists have maintained that residential investment, at less than 5% of GDP, is too small a share of the US economy to lead to a recession. Do you agree with this assessment?
- 4) Following the October 30/31 Fed policy meeting, the Fed issued a statement which said, "The pace of economic expansion will likely slow in the near term." By how much does the Fed anticipate economic growth will slow and how severe of a slowdown is necessary to trigger further monetary easing?
- 5) A few months ago, it was commonly believed that the subprime mortgage market was too small to cause any meaningful damage to the overall mortgage market let alone the entire financial system. At this point, do you believe that the problem is contained?
- 6) Many analysts say the proposal for a Master Liquidity Enhancement Conduit, the so-called Super SIV, is dead on arrival. How high is the risk of a fire sale on some of the less liquid mortgage-backed securities and is the Fed prepared to deal with such an event?
- 7) The effective federal funds rate has been trading closer to 4.25% in the last few days which is lower than the Fed's official target of 4.5%? A similar pattern emerged in August when the Fed stepped in to inject liquidity into the market before rubber stamping the move with an official rate cut in September. Is today any different?