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Secondary Sources: Fed Mistakes, Pub Power, Prices and Obesity

A roundup of economic news from around the Web.

Fed Mistakes: On Cato Unbound, **Jim Hamilton** responds to Scott Sumner on the Fed's mistakes ahead of the financial crisis. "Let me mention one other real-world complication that has made it difficult for the Fed to achieve a faster growth of nominal GDP. Macroeconomists often like to think of inflation in terms of an aggregate price index, the variable P in the equation of exchange. But, particularly in the current environment, aggressive stimulus by the Fed is unlikely to show up as higher wages or the prices of most services, but instead would raise relative commodity prices and could in a worst case scenario precipitate a currency crisis, both of which would be highly destabilizing in their own right. I agree with Sumner that the Fed could and should have done more, but would caution that it is also possible for the Fed to try to do too much. I come back to the perspective with which I opened — given the earlier regulatory lapses, significant economic losses could not have been prevented by any monetary policy that could have been implemented in the fall of 2008."

Pub Power: Econompic looks at a market indicator that shows the ratio of restaurant sales to grocery sales. "any good / catchy buy signal needs an interesting explanation, so here goes (and feel free to pile on in the comments section). The relative strength (i.e. demand) of restaurants relative to cooking at home shows the following characteristics: Consumer confidence, Exuberance, Spending power, Wealth… Or something like that… On the other hand, when times are tough, individuals are more likely to eat at home, causing year over year sales at pubs to decline relative to grocery stores."

Obesity and Prices: On voxeu, **Neil Gandal** looks at the connection between food prices and obesity. "Is increasing obesity due to changes in relative food prices? High-energy density foods are less expensive per calorie than fresh fruits and vegetables. Using data from Israel, this column shows that price sensitivity has a significant impact on obesity. In fact, price sensitivity may be more crucial than income."

Fed Q&A: In addition to a primer on the Fed's ability to pay interest on reserves, the Journal's David Wessel presents a Q&A on the Fed in his latest Capital column. "Q. Given all the money that the Fed has created, isn't inflation inevitable? A. It's hard to get a round of wage and price increases going when unemployment is so high and so many factories idle. In fact, the Fed would prefer a little more inflation than it sees today. But having created so much credit, the Fed is taking a big risk that it'll get more inflation than it wants. Some observers, citing historical precedent, say an outbreak of inflation is inevitable. Inflation can be avoided only if the Bernanke Fed has the forecasting skill and luck to withdraw credit soon enough, and has the political fortitude to do so before everyone is convinced that the economy is back to something resembling normal — even if that moment arrives while Congress is contemplating changes to the Fed's charter." Wessel will be doing a live chat today at 1 p.m. EST with the Washington Post.

Compiled by Phil Izzo