







8. In March 2025, the Fed announced it would hold interest rates constant for the near-term, as there is risk for both recession and inflation, a change in stance from earlier communication for its intention to decrease interest rates as long as there was not risk for higher inflation. In February 2025, President Donald Trump and Elon Musk both suggested that a recession in the future was possible. Suppose people expect the Fed to keep interest rates constant in the near term, but expect recessionary risk to dominate in the Fed's decisions in over the next one to three years. Suppose people have a significant degree of uncertainty for the path of monetary policy after three years. Draw and describe a yield curve in March 2023 that illustrates this situation.

9. Just for fun, go to <https://www.ustreasuryyieldcurve.com/> and look at what the U.S. yield curve actually looked like for the dates below. Did you make these predictions?

(a) December 3, 2007: the situation in problem #6

(b) January 1, 1979; the situation in problem #7

(c) March 23, 2025; the situation in problem #8