

FEDERAL RESERVE BANK OF ST. LOUIS

REVIEW

FIRST QUARTER 2015
VOLUME 97 | NUMBER 1

**Three Scenarios for Interest Rates
in the Transition to Normalcy**

Diana A. Cooke and William T. Gavin

A Measure of Price Pressures

Laura E. Jackson, Kevin L. Kliesen, and Michael T. Owyang

Risk Aversion at the Country Level

Néstor Gandelman and Rubén Hernández-Murillo

**The Welfare Cost of Business Cycles with
Heterogeneous Trading Technologies**

YiLi Chien

REVIEW

Volume 97 • Number 1



President and CEO

James Bullard

Director of Research

Christopher J. Waller

Chief of Staff

Cletus C. Coughlin

Deputy Directors of Research

B. Ravikumar

David C. Wheelock

Review Editor-in-Chief

Stephen D. Williamson

Research Economists

David Andolfatto

Alejandro Badel

Subhayu Bandyopadhyay

Maria E. Canon

YiLi Chien

Silvio Contessi

Riccardo DiCecio

William Dupor

Maximiliano A. Dvorkin

Carlos Garriga

Rubén Hernández-Murillo

Kevin L. Kliesen

Fernando M. Martin

Michael W. McCracken

Alexander Monge-Naranjo

Christopher J. Neely

Michael T. Owyang

Paulina Restrepo-Echavarria

Juan M. Sánchez

Ana Maria Santacreu

Guillaume Vandenbroucke

Yi Wen

David Wiczler

Christian M. Zimmermann

Managing Editor

George E. Fortier

Editors

Judith A. Ahlers

Lydia H. Johnson

Graphic Designer

Donna M. Stiller

1

Three Scenarios for Interest Rates in the Transition to Normalcy

Diana A. Cooke and William T. Gavin

25

A Measure of Price Pressures

Laura E. Jackson, Kevin L. Kliesen, and Michael T. Owyang

53

Risk Aversion at the Country Level

Néstor Gandelman and Rubén Hernández-Murillo

67

The Welfare Cost of Business Cycles with Heterogeneous Trading Technologies

YiLi Chien

Review

Review is published four times per year by the Research Division of the Federal Reserve Bank of St. Louis. Complimentary print subscriptions are available to U.S. addresses only. Full online access is available to all, free of charge.

Online Access to Current and Past Issues

The current issue and past issues dating back to 1967 may be accessed through our Research Division website:

<http://research.stlouisfed.org/publications/review>. All nonproprietary and nonconfidential data and programs for the articles written by Federal Reserve Bank of St. Louis staff and published in *Review* also are available to our readers on this website.

Review articles published before 1967 may be accessed through our digital archive, FRASER: <http://fraser.stlouisfed.org/publication/?pid=820>.

Review is indexed in Fed in Print, the catalog of Federal Reserve publications (<http://www.fedinprint.org/>), and in IDEAS/RePEc, the free online bibliography hosted by the Research Division (<http://ideas.repec.org/>).

Authorship and Disclaimer

The majority of research published in *Review* is authored by economists on staff at the Federal Reserve Bank of St. Louis. Visiting scholars and others affiliated with the St. Louis Fed or the Federal Reserve System occasionally provide content as well. *Review* does not accept unsolicited manuscripts for publication.

The views expressed in *Review* are those of the individual authors and do not necessarily reflect official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.

Subscriptions and Alerts

Single-copy subscriptions (U.S. addresses only) are available free of charge. Subscribe here:

<https://research.stlouisfed.org/publications/review/subscribe/>.

Our monthly email newsletter keeps you informed when new issues of *Review*, *Economic Synopses*, *The Regional Economist*, and other publications become available; it also alerts you to new or enhanced data and information services provided by the St. Louis Fed. Subscribe to the newsletter here: <http://research.stlouisfed.org/newsletter-subscribe.html>.

Copyright and Permissions

Articles may be reprinted, reproduced, republished, distributed, displayed, and transmitted in their entirety if copyright notice, author name(s), and full citation are included. In these cases, there is no need to request written permission or approval. Please send a copy of any reprinted or republished materials to *Review*, Research Division of the Federal Reserve Bank of St. Louis, P.O. Box 442, St. Louis, MO 63166-0442; STLS.Research.Publications@stls.frb.org.

Please note that any abstracts, synopses, translations, or other derivative work based on content published in *Review* may be made only with prior written permission of the Federal Reserve Bank of St. Louis. Please contact the *Review* editor at the above address to request this permission.

Economic Data

General economic data can be obtained through FRED® (Federal Reserve Economic Data), our free database with nearly a quarter of a million national, international, and regional data series, including data for our own Eighth Federal Reserve District. You may access FRED through our website: <http://research.stlouisfed.org/fred2>.

© 2015, Federal Reserve Bank of St. Louis.

ISSN 0014-9187

To Our Readers

In January 2015, I took over from Bill Gavin, who served for many years as editor-in-chief of the Federal Reserve Bank of St. Louis *Review*. Bill has retired from his position, and I hope to continue the tradition of high-quality *Review* articles published under Bill's capable leadership.

The *Review* will continue to publish articles written by our staff economists at the St. Louis Fed, along with occasional contributions by outside scholars, including our research fellows and academic visitors. We aim to please a broad audience, addressing economic issues at the frontier of research on economic theory and policy, with a special interest in macroeconomics, financial issues, monetary economics, banking, and monetary policy.

Our aim is to focus on the important economic ideas of our time, presented in an accessible fashion. To that end, we welcome input from you, our readers.



Stephen Williamson

Vice President and Editor-in-Chief of *Review*

Federal Reserve Bank of St. Louis

