Taylor Rules

\[ i_t^{FedFunds} = \pi_t + \beta(y_t - y_t^*) + \delta (\pi_t - \pi_t^*) + r_t^* \]

\[ i_t^{FedFunds} = (1 + \delta)\pi_t + \beta(y_t - y_t^*) + r_t^* - \delta \pi_t^* \]

In this notation,

- \( y_t^* \) is (log) full employment output/potential GDP
- \( \pi_t^* \) is target inflation (personal consumption expenditure)
- \( r_t^* \) is the natural real rate of interest, set in below calculations at 2.5%
