

## Can Monetary Policy Determine Eye Color?

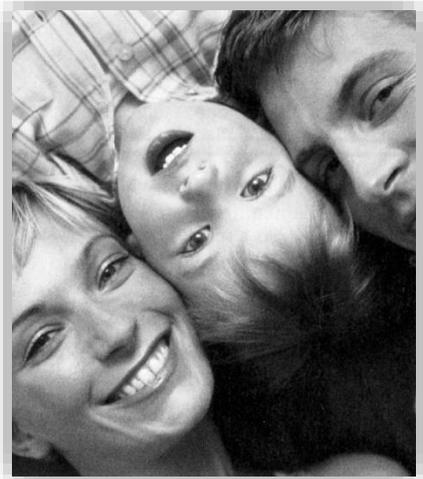
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Scientists sometimes use the term *butterfly effect* to express the idea that small changes can be catalysts for huge changes (that are far removed in time and space from the initial small change). To illustrate, suppose a butterfly is flying over the equator. It flaps its wings as it flies. The flap of a butterfly's wings is a tiny thing, but it could be just enough (at a particular place and time) to cause a small change in the weather, which could ultimately change the weather conditions around the world. A butterfly flapping its wings over Brazil could be the catalyst that ends up producing a hurricane off the coast of Florida.

Some people use the butterfly effect to explain why it is so hard to predict the future. After all, if something as small as a butterfly flapping its wings can make the difference between a hurricane and no hurricane, then how many other little things in the world can upset one's predictions?

People also use the butterfly effect to explain how a change in one place – far away from a person – can end up affecting that person's life. These people might even say that a change in monetary policy can affect a person's life, maybe even yours.

Take the case of Caroline, who is 17 years old. Caroline has blue eyes. One day someone asks her why she has blue eyes. She says it is because both her mother and father have blue eyes.



Now we ask ourselves how Caroline's mother and father met. It turns out that they met in Denver. Her mother was a college student at the time and her father was working on a construction crew building apartment buildings. When we dig deeper, we learn that the only reason Caroline's father was in Denver is because he couldn't find work in his hometown, Austin, Texas. Why couldn't he find work in Austin? Well, at the time, the economy was depressed and the unemployment rate was high.

Reacting to this state of affairs, the Fed decided to increase the rate of growth in the money supply. The "new money" the Fed created found its way initially to Denver, and so the Denver economy started moving upwards before many other local economies. The man who was to become Caroline's father, who was living in Austin at the time, heard that jobs were plentiful in Denver and so he went there looking for a job.

In other words, if the Fed hadn't increased the money supply, the Denver economy might not have started booming (when it did). And if Denver's economy hadn't begun to boom, Caroline's father may not have gone to Denver, where he met and married Caroline's mother. And if they hadn't met, they would not have had Caroline—who, we remember, has blue eyes because both her mother and father have blue eyes.

Or does Caroline have blue eyes because of the Fed enacting monetary policy?

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### Quick Question

1. What is the point of this article? How can Monetary Policy affect each of our lives ...?