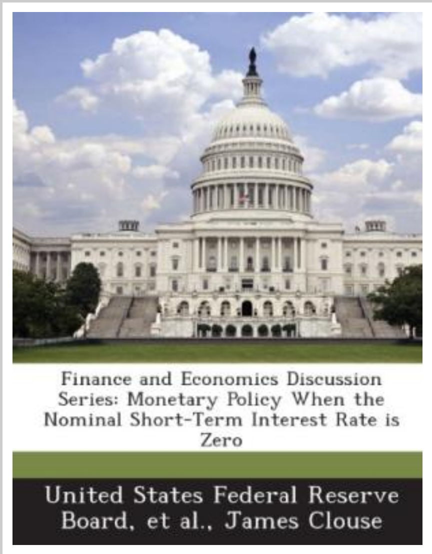

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Finance and Economics Discussion Series: Monetary Policy When the Nominal Short-Term Interest Rate Is Zero

By James Clouse

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****.In an environment of low inflation, the Federal Reserve faces the risk that it has not provided enough monetary stimulus even when it has pushed the short-term nominal interest rate to its lower bound of zero. Assuming the nominal Treasury-bill rate has been lowered to zero, this paper considers whether further open market purchases of Treasury bills could spur aggregate demand through increases in the monetary base that may stimulate aggregate demand by increasing liquidity for financial intermediaries and households; by affecting expectations of the future paths of short-term interest rates, inflation, and asset prices; or by stimulating bank lending through the credit channel. This paper also examines the alternative policy tools that are available to the Federal Reserve in theory, and notes the practical limitations imposed by the Federal Reserve Act, The tools the Federal Reserve has at its disposal include open market purchases of Treasury bonds and private-sector credit instruments (at least those that may be purchased by the Federal Reserve); unsterilized and sterilized intervention in foreign exchange; lending through the discount window; and, perhaps in...

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