Monetary Policy at the Zero Lower Bound
ECON 4673
Dr. Keen

Problems

1. How does the policy rate hitting a floor of zero lead to an upward-sloping aggregate demand curve?

2. Why does the self-correcting mechanism stop working when the policy rate hits the zero?

3. What nonconventional monetary policies shift the aggregate demand curve, and how do they work?

4. Suppose that $\bar{f}$ is determined by two factors: financial panic and asset purchases.

    a. Using an MP curve and an AD/AS graph, show how a sufficiently large financial panic can pull the economy below the zero lower bound and into a destabilizing deflationary spiral.

    b. Use a MP graph and an AD/AS graph to show how a sufficient amount of large-scale asset purchases can reverse the effects of the financial panic depicted in part (a).