

Economics 304
Daily Problem #14

Fall 2013
October 14

1. Explain the difference between reserve requirements imposed on banks and capital-adequacy requirements. What is the purpose of each?
2. Why can the nominal interest rate never reach exactly zero? How does this limit monetary policy?
3. Suppose that the central bank were able to (somehow) manipulate inflationary expectations through its announcements. Explain how successfully convincing the public that inflation was likely to be high could mitigate the difficulty of the previous problem.