

OPTIMAL MONETARY POLICY AND A SAFETY MARGIN

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〈SUMMARY〉

The objective of this paper is to measure the radius of the safety margin which expands when a central bank adopts a positive inflation target against the zero bound on nominal interest rates. Concretely, we add four supplementary assumptions to the standard New Keynesian model in order to grasp the safety margin.

Through our analysis using the New Keynesian framework, we confirm the advance preparation by the central bank is generally effective. Besides, our analysis reveals that the safety margin is generated effectively by the central bank in long term perspective.