

Central Banking and Deflationary Depression : A Japanese Perspective

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In this paper, we investigate the roles of central banking in the period of deflationary depression both empirically and theoretically in reference of the Japanese economy in the 1990s and the 2000s. In the first part of the paper, we summarize the empirical facts on the inferior macroeconomic performance of the Japanese economy and problematical monetary policy of BOJ (Bank of Japan) in the period of the so-called 'lost decade' (the 1990s) and the continued deflationary depression period (the 2000s). In the latter part of the paper, we consider some theoretical models which are useful for the interpretation of the above mentioned phenomena. Our theoretical analysis by means of macrodynamic model supports the following descriptions by Blinder et al.

“The view that monetary policy is, at least in part, about managing expectations is by now standard fare both in academia and central banking circles. It is no exaggeration to call this a revolution of thinking.” (Blinder et al. 2008, p. 911)

“The profession no longer believes that only unanticipated money matters.” (Blinder et al. 2008, p. 818)

Incidentally, our report is based on Asada(2010).

Keywords : Central banking, Deflationary depression, Japanese economy, Inflation expectation, Inflation targeting

References

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