

## Case Study Example: Japan

Economist (2/20/99, page 67):

*Who Prints the Yen?*

Various financial agencies in Japan are threatening to stop buying, and begin selling Govt bonds.

Govt would have to offer higher rates of return => increasing interest rates and preventing the expansion of economy.

Govt asked independent Bank of Japan for 2 policies:

1. Buy bonds off other financial agencies at same price.

2. Buy increased amounts of Govt bonds at low price – maintaining interest rates.

Bank says ‘No’ to both!

If bank buys bonds then the market takes this as a signal of no budgetary constraint on fiscal policy.