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In December 2008, the Federal Open Market Committee (FOMC) lowered its target range for the federal funds rate to 0–25 basis points, effectively hitting the zero lower bound. The economy recovered slowly from the depth of the recession, and the FOMC did not lift the federal funds rate target from its lower bound until December 2015.

The prolonged period at the zero lower bound raises the question of how to measure the overall stance of monetary policy when constraints prevent the FOMC from using its traditional policy tool—the target federal funds rate. Taeyoung Doh and Jason Choi propose a new “shadow short-term interest rate” that reflects both government and private-sector borrowing conditions. Their measure of the new shadow rate closely tracks the effective federal funds rate during the period before the zero lower bound. Furthermore, they find inflation and unemployment respond to the shadow rate much as they did to the effective federal funds rate before the zero lower bound period.

Consumer Spending in China: The Past and the Future
By Jun Nie and Andrew Palmer

After declining for nearly half a century, the share of consumer spending in China’s GDP has recently increased. The rising consumption share has alleviated some concerns about slowing growth in China: economists and policymakers widely agree that the share of consumer spending must increase for China to continue its economic development. Whether this trend is sustainable, however, is unclear.

Jun Nie and Andrew Palmer examine the key factors driving the recent uptick in consumer spending to evaluate whether China can truly become a consumption-driven economy. They find Chinese consumption growth will likely remain strong, at around 9 percent, over the next few years due to relatively stable income growth and an expected decline in the household saving rate. But in the long run, strong household income growth—which will depend heavily on China’s current supply-side reforms to improve technology and investment—will be necessary for China to transition to a consumption-driven economy.
In 2013, nearly 17 million U.S. adults did not have a checking or savings account. Some of these consumers may choose not to have a bank account due to personal preferences. Others, however, may be influenced by factors they cannot control, such as minimum requirements to open accounts and high fees. For these consumers, access to more affordable electronic payment products may enhance their economic well-being by reducing the cost associated with payments and broadening their options of where to make purchases.

Fumiko Hayashi examines the main reasons consumers do not have traditional bank accounts and identifies features of electronic payment products that might attract those consumers. She finds that consumers are primarily deterred from opening bank accounts due to their low or unstable income and banks’ high fees. She also finds that some electronic payment products—in particular, general purpose reloadable prepaid cards—may be able to address these issues and thereby attract unbanked consumers.
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