

Zero Interest Rates

Can you imagine borrowing \$1,000, and after a year still owing only about \$1,000? In early 1999, the governor of the Bank of Japan lowered the overnight unsecured call rates to 0.08 percent (almost zero). The unsecured call rate is the interest rate at which banks lend each other to cover differences in their accounts resulting from deposit and withdrawal transactions.

Interest rates represent the cost of money. They are influenced mainly by the supply and demand for money. As people spend less (and save more), interest rates tend to decline as the supply of available funds increases. However, when consumers, companies, and governments increase their spending, interest rates tend to rise. This increase in spending results in higher demand for money and borrowing, pushing interest rates upward.

The lowering of this key interest rate was an attempt to get Japan's economy growing again. The country has encountered increases in business bankruptcies and a higher unemployment rate.

The Ministry of Finance in Japan also announced that it would start buying government bonds. This action, which puts more money in circulation, is also an attempt to lower interest rates and hopefully to encourage spending and economic expansion. The government made the choice to buy government bonds rather than printing additional money which could cause inflation.

1. Research the current level of interest rates in various countries. What factors affect these rates? How do these rates affect business opportunities and economic growth?
2. Create a display of domestic and international factors that would be affected by higher or lower interest rates.