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.